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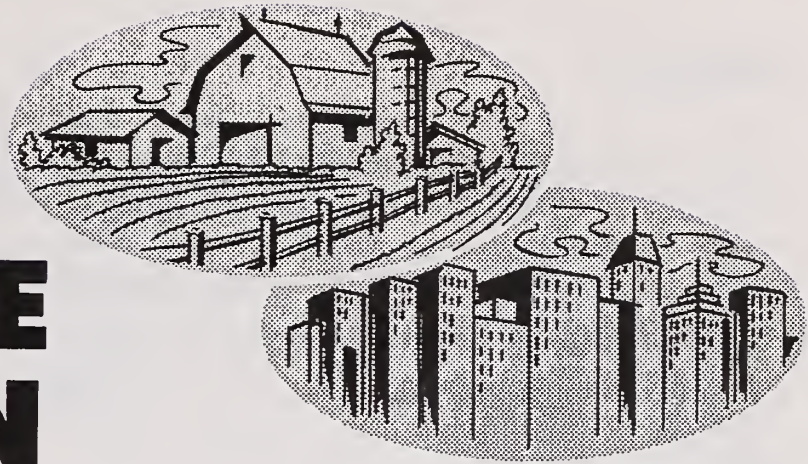
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DEMAND AND PRICE SITUATION



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For A.M. Release, August 10, 1967

IN THIS ISSUE

U. S. DEPT. OF AGRICULTURE
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SEP 11 1967

CURRENT SERIAL RECORDS

SUMMARY

AGRICULTURAL SITUATION

GENERAL ECONOMIC SITUATION

BALANCE OF PAYMENTS

CURRENT COMMODITY SITUATION

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ECONOMIC RESEARCH
SERVICE

U. S. DEPARTMENT OF
AGRICULTURE

Table 1.--Economic factors affecting agriculture

Item	Unit or base period	1966		1967			
		Year	June	Mar.	Apr.	May	June
Industrial production <u>1/ 2/</u>	: 1957-59=100	: 156	157	156	156	156	155
Final products	: do.	: 155	155	157	157	156	156
Consumer goods	: do.	: 147	147	146	147	146	146
Autos	: do.	: 170	168	136	150	150	156
Equipment, including defense	: do.	: 173	171	180	179	178	177
Materials	: do.	: 157	158	156	156	155	155
Construction: <u>3/ 4/</u>	:	:	:	:	:	:	:
Total outlays	: Mil. dol.	: 74,371	74,540	73,023	71,549	72,456	---
Public construction	: Mil. dol.	: 23,925	23,064	26,401	26,109	26,404	---
Private residential	: Mil. dol.	: 23,815	24,859	20,946	21,079	21,809	---
Housing starts, private only	: Thousands	: 1,220	1,285	1,167	1,190	1,298	1,302
Manufacturers' shipments, orders, and inventories: <u>2/ 3/</u>	:	:	:	:	:	:	:
Total shipments, monthly rate	: Mil. dol.	: 44,037	44,125	44,866	43,943	44,945	44,867
Durable goods, monthly rate	: Mil. dol.	: 23,006	22,898	23,137	22,269	22,900	23,031
Unfilled orders	: Mil. dol.	: 79,917	75,009	77,290	77,194	77,988	79,146
Inventory stocks, book value <u>5/</u>	: Mil. dol.	: 77,897	71,949	79,708	80,330	80,578	80,416
Durable goods	: Mil. dol.	: 50,037	45,003	51,216	51,593	51,784	51,803
Employment and wages: <u>2/ 6/</u>	:	:	:	:	:	:	:
Total civilian employment	: Millions	: 72.9	72.7	73.7	73.9	73.3	74.1
Nonagricultural	: do.	: 68.9	68.7	69.9	70.0	69.6	70.4
Unemployment	: do.	: 2.9	2.9	2.8	2.8	2.9	3.1
Workweek in manufacturing	: Hours	: 41.3	41.3	40.4	40.5	40.4	40.2
Hourly earnings in manufacturing, unadj.	: Dollars	: 2.71	2.71	2.79	2.80	2.81	2.81
Income and spending:	:	:	:	:	:	:	:
Personal income <u>3/ 4/</u>	: Bil. dol.	: 584.0	581.1	615.6	616.5	618.2	621.9
Consumer credit outstanding <u>1/ 5/</u>	: Mil. dol.	: 94,786	90,070	92,519	93,089	93,917	---
Automobile	: Mil. dol.	: 30,961	30,402	30,527	30,635	30,852	---
Total retail sales, monthly rate <u>2/ 3/</u>	: Mil. dol.	: 25,306	25,394	25,739	25,918	25,980	26,050
Durable goods, monthly rate	: Mil. dol.	: 8,151	8,056	8,150	8,104	8,192	8,347
Inventory stocks, book value <u>5/</u>	: Mil. dol.	: 36,961	36,325	36,526	36,236	36,263	---
Prices: <u>6/</u>	:	:	:	:	:	:	:
Wholesale prices, all commodities <u>7/</u>	: 1957-59=100	: 105.9	105.7	105.7	105.3	105.8	106.3
Industrial commodities	: do.	: 104.7	104.9	106.0	106.0	106.0	106.0
Farm products	: do.	: 105.6	104.2	99.6	97.6	100.7	102.4
Processed foods and feeds	: do.	: 113.0	112.0	110.6	110.0	110.7	112.6
Consumer price index, all items	: do.	: 113.1	112.9	115.0	115.3	115.6	116.0
Food	: do.	: 114.2	113.9	114.2	113.7	113.9	115.1
Prices received by farmers <u>8/</u>	: 1910-14=100	: 266	264	250	245	252	255
Crops	: do.	: 235	240	224	223	221	227
Livestock and products	: do.	: 292	284	272	264	279	279
Prices paid, interest, taxes, and wage rates <u>8/</u>	: 1910-14=100	: 334	333	340	341	342	343
Family living items	: do.	: 315	314	318	318	320	321
Production items	: do.	: 285	283	289	288	289	290
Parity ratio <u>8/</u>	:	: 80	79	74	72	74	74
Farm income and marketings: <u>8/</u>	:	:	:	:	:	:	:
Volume of farm marketings	: 1957-59=100	: 121	107	98	91	93	110
Cash receipts from farm marketings	: Mil. dol.	: 42,879	3,163	2,849	2,679	2,739	3,200

Annual data for most of these items for years 1929, 1941, 1947, and 1953-66 appear on page 38 of the May 1967 issue of the Demand and Price Situation.

1/ Federal Reserve Board. 2/ Seasonally adjusted. 3/ U. S. Department of Commerce. 4/ Seasonally adjusted annual rates. 5/ End of year or month. 6/ U. S. Department of Labor. 7/ Beginning January 1967, reflects revised weighting structure and some new series for wholesale prices. Details available from Bureau of Labor Statistics, U. S. Department of Labor. 8/ U. S. Department of Agriculture.

DEMAND AND PRICE SITUATION

Approved by the Outlook and Situation Board, August 2, 1967

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SUMMARY

General economic activity picked up in the second quarter of this year after a slow first three months. Although realized gross farm income remained on a high plateau during the first half of 1967, production expenses continued to climb resulting in lower realized net farm income compared with a year earlier.

A larger volume of farm marketings and lower farm prices during the first half of 1967 resulted in a 2 percent decline in cash receipts. However, part of the decline was offset by larger direct Government payments. On the expense side, prices paid by farmers for most major items showed gains over a year earlier. The only important exception was prices paid for feeder livestock. Thus, production expenses during January-June were estimated 5 percent above the same period in 1966. And, realized net farm income was down about one-tenth from the near record level in the first half of 1966.

A general increase in supplies of farm products--particularly livestock--in the first half of 1967 was accompanied by further gains in consumer demand. In the livestock sector, sharply expanded production of red meat and poultry reduced prices 6 percent below the first half of 1966. Livestock output for the year is expected to expand 2 to 2½ percent from 1966, with most of the increase coming in the first half. As a result, some general price improvement for livestock appears likely in the latter part of the year.

Total crop supplies during the first half were little changed from a year earlier. However, crop prices averaged 5 percent below January-June 1966. The decline was due to a record citrus crop, and changes in the cotton support program that lowered the loan rate but increased direct payments to producers.

If current prospects for increased crop production materialize, prices later this year will likely average lower than in 1966. Total cropland planted for harvest in 1967 is expected to reach 318 million acres, up 7 percent from last year. With

nearly 20 million more acres planted and higher yields estimated for a number of important crops, total crop production is expected to be up substantially. The first official estimate of total crop production will be released in the August 10th Crop Report.

Although general economic activity picked up in the second quarter of 1967, growth was slower during the first half compared with a year earlier. Government spending for goods and services continued rising sharply. However, drastically slower growth in inventory stocks largely accounted for the smaller increases in gross national product. Slower growth in inventory stocks was due to lagging sales and subsequent unplanned inventory accumulation in 1966. Although consumer disposable income continued rising steadily, a larger portion was shunted into savings. The saving rate during the first half of this year was about 7 percent of disposable income compared with about 6 percent during the first half of 1966. Expenditures for food during the first half of 1967 were up $3\frac{1}{2}$ percent from a year earlier, compared with an increase of 10 percent during the first half of 1966. Part of the slower rise was due to generally declining retail food prices since last summer. In the second quarter food prices were nearly 1 percent below the peak reached in the third quarter of 1966 but slightly above the second quarter of last year. Retail food prices for the year are expected to average slightly above 1966.

Current indications point to declines in supplies for several important food products, and, barring a prolonged strike in any major industry, a strengthening in general economic activity. Government and consumer demand is expected to increase further while the recent recovery in housing activity likely will continue. Investment spending probably will be steady to up slightly. Expanding final sales should moderate the decline in inventory growth and may even result in some increase. For the year, the gross national product may average 5 to $5\frac{1}{2}$ percent above the 1966 level of \$743 billion.

Foreign demand grew more slowly during fiscal 1967 (July 1, 1966 to June 30, 1967). Exports of U. S. agricultural products eased ahead of the previous year's record by 1 percent in 1966/67, reaching an estimated \$6.8 billion. Sharp increases in exports of cotton, tobacco, and rice barely offset substantial declines for dairy products and feed grains.

The carryover situation for crops has changed substantially in the past few years. Mid-year stock levels of wheat, cotton, feed grains, and tobacco were lower than a year earlier. However, there has been some buildup of privately held stocks of feed grains and total stocks of soybeans are up nearly 50 percent from last year.

Table 2.--Index numbers of agricultural prices and marketings 1950-67 annually, and 1965-67 quarterly

Period	Prices received by farmers, 1910-14=100				Prices paid, interest, taxes, and wage rates, 1910-14=100				Parity ratio	Volume of farm marketings, 1957-59=100									
	Total		Crops		Livestock and products		Total			Family living		Production		Total		Crops		Livestock and products	
1950	258	233	280	256	246	246	246	101	83	85	82	85	82						
1951	302	265	336	282	268	273	273	107	84	84	85	85	85						
1952	288	267	306	287	271	274	274	100	88	89	86	86	86						
1953	255	240	268	277	269	256	256	92	92	95	90	90	90						
1954	246	242	249	278	270	255	255	89	93	92	93	93	93						
1955	232	231	234	276	270	251	251	84	96	96	96	96	96						
1956	230	235	226	278	274	250	250	83	99	97	101	101	101						
1957	235	225	244	287	282	257	257	82	94	88	99	99	99						
1958	250	223	273	294	287	264	264	85	101	104	98	98	98						
1959	240	222	256	298	288	266	266	81	105	108	103	103	103						
1960	238	222	253	300	290	265	265	80	107	112	104	104	104						
1961	240	227	251	302	291	266	266	79	109	110	108	108	108						
1962	244	232	255	307	295	270	270	80	111	112	110	110	110						
1963	243	239	245	312	298	273	273	78	116	119	114	114	114						
1964	237	239	236	313	300	270	270	76	118	119	118	118	118						
1965	248	234	261	321	306	276	276	77	118	119	118	118	118						
1966	266	235	292	334	315	285	285	80	121	121	120	120	120						
1967	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1/122	1/124	1/122	1/122	1/122						
1965:																			
I	238	237	239	318	303	273	273	75	101	85	113	113	113						
II	250	245	255	322	306	277	277	78	91	58	115	115	115						
III	252	230	271	322	306	277	277	77	121	125	119	119	119						
IV	253	223	280	323	307	277	277	78	160	207	125	125	125						
1966:																			
I	268	232	299	329	311	282	282	81	106	98	112	112	112						
II	264	239	286	333	314	283	283	79	95	65	118	118	118						
III	270	240	296	335	317	287	287	80	122	122	122	122	122						
IV	261	231	286	337	318	287	287	78	159	197	130	130	130						
1967:																			
I	252	224	276	340	318	289	289	74	1/109	1/96	1/119	1/119	1/119						
II	251	224	274	342	320	289	289	73	1/98	1/69	1/119	1/119	1/119						

1/ Preliminary estimates as of July 1, 1967. n.a. not available
U.S. Department of Agriculture.

Table 3.--Gross and net income from farming, 1950-1966 annually and 1965-67 quarterly

Year	Cash receipts			Realized : nonmoney income	Govern- ment : payments	Realized : gross farm income	Farm : production expenses	Farm opera- tors' net realized income	Net change : Farm operators' total net income 1/				
	Marketings : Crops	Livestock : and products	Realized : nonmoney income						Govern- ment : payments	Realized : gross farm income	Farm : production expenses	Farm opera- tors' net realized income	Net change : Farm operators' total net income 1/
-----Billion dollars-----													
1950	28.5	12.4	16.1	3.5	0.3	32.3	19.4	12.9	0.8	13.7			
51	32.9	13.2	19.6	3.9	.3	37.1	22.3	14.8	1.2	16.0			
52	32.5	14.3	18.2	4.0	.3	36.8	22.6	14.1	.9	15.1			
53	31.0	14.1	16.9	3.8	.2	35.0	21.3	13.7	-.6	13.1			
54	29.8	13.6	16.3	3.5	.3	33.6	21.6	12.0	.5	12.5			
1955	29.5	13.5	16.0	3.4	.2	33.1	21.9	11.2	.2	11.5			
56	30.4	14.0	16.4	3.3	.6	34.3	22.4	11.9	-.5	11.4			
57	29.7	12.3	17.4	3.3	1.0	34.0	23.3	10.7	.6	11.3			
58	33.5	14.2	19.2	3.4	1.1	37.9	25.2	12.7	.8	13.5			
59	33.5	14.6	18.9	3.3	.7	37.5	26.1	11.4	.1	11.5			
1960	34.0	15.1	18.9	3.2	.7	37.9	26.2	11.7	.3	12.0			
61	34.9	15.5	19.4	3.2	1.5	39.6	27.0	12.6	.3	12.9			
62	36.2	16.2	20.0	3.1	1.7	41.0	28.5	12.5	.6	13.1			
63	37.2	17.3	19.9	3.2	1.7	42.1	29.6	12.5	.6	13.1			
64	37.1	17.2	19.8	3.1	2.2	42.4	29.4	13.0	-.8	12.2			
1965	39.1	17.3	21.8	3.2	2.5	44.8	30.9	13.9	1.0	14.9			
1966 2/	43.2	18.4	24.8	3.2	3.3	49.7	33.3	16.4	-.2	16.2			
1965: 3/													
I	37.6	17.0	20.6	n.a.	n.a.	43.1	29.9	13.2	.5	13.7			
II	39.3	17.8	21.5	n.a.	n.a.	44.9	30.8	14.1	1.0	15.1			
III	39.5	17.1	22.4	n.a.	n.a.	45.2	31.3	13.9	1.4	15.3			
IV	40.0	17.4	22.6	n.a.	n.a.	45.8	31.6	14.2	1.2	15.4			
1966: 2/													
I	43.3	18.5	24.8	n.a.	n.a.	49.5	32.6	16.9	.4	17.3			
II	43.1	18.4	24.7	n.a.	n.a.	49.5	33.1	16.4	-.2	16.2			
III	43.3	18.6	24.7	n.a.	n.a.	50.0	33.5	16.5	-.4	16.1			
IV	43.2	18.6	24.6	n.a.	n.a.	49.9	34.0	15.9	-.6	15.3			
1967: 2/													
I	42.6	n.a.	n.a.	n.a.	n.a.	49.3	34.3	15.0	-.2	14.8			
II	42.4	n.a.	n.a.	n.a.	n.a.	49.1	34.5	14.6	-.1	14.5			

1/ Details may not add to totals due to rounding. 2/ Preliminary. 3/ Quarterly data seasonally adjusted at annual rates.
n.a. not available.

AGRICULTURAL SITUATION

A general increase in supplies of agricultural products--particularly live-stock--in the first half of 1967 was accompanied by further gains in consumer demand. In the livestock sector, sharply expanded production of red meat and poultry reduced prices 6 percent below the first half of 1966. On the crop side, total available supplies were little changed from a year earlier. However, crop prices averaged 5 percent below January-June 1966. The decline was due primarily to a record citrus crop, and changes in the cotton support program which lowered the loan rate but increased direct payments to producers.

Prices received by farmers strengthened in May and June of this year, but for the entire second quarter they averaged 5 percent below the high second quarter level in 1966 (table 2). Most of the overall May-June price improvement came from higher meat animal prices. Lower levels of lamb and hog slaughter boosted lamb and hog prices in May \$4.00 and \$4.70 per cwt., respectively, over mid-April averages. Cattle prices during these months were relatively steady. However, partially offsetting May-June gains from earlier months were seasonally lower prices for chicken, eggs, and milk.

On the average, crop prices during the April-June quarter showed little change from the first 3 months of the year (table 2). Generally smaller supplies of most deciduous fruits firmed up fruit prices in June, but the average for all fruit was sharply below year-earlier levels due to lower prices for most citrus items. Cold, damp weather delayed harvesting and marketing of fresh vegetables, and prices in June and early July climbed sharply.

Cash receipts during the first half of 1967 totaled \$18 billion, 2 percent below the first half of last year. Lower prices were partially offset by a larger volume of farm marketings. Livestock marketings showed the largest gain from year-earlier levels. On a seasonally adjusted basis, realized gross farm income totaled \$49.2 billion (annual rate), down 1 percent from the same period a year earlier. Part of the decline in cash receipts was offset by larger direct Government payments.

Increases in farm production expenses so far this year have brought about a sharp decline in realized net farm income. For the first 6 months of the year, realized net income is estimated about a tenth below the record seasonally adjusted annual rate of \$16.6 billion during the first half of last year.

Total livestock output this year is running well above year-earlier rates and for the year may total some 2 to 2½ percent above 1966. During the first half of 1967, supplies of fed beef, hogs, broilers, turkeys, and eggs were running well above year-earlier levels and as a result prices averaged lower. However, producers appear to be moderating the expansion in production. Year-to-year gains in livestock production are expected to decline and some general improvement in livestock prices appears likely in the latter part of the year.

On July 1, 1967, there were 8.7 million head of cattle and calves on feed, 2 percent less than a year earlier. The number of cattle on feed in the heavy weight groups was greater than a year earlier, while lighter weight animals were in shorter supply. Although fed cattle marketings during early summer exceeded year-earlier levels, by fall they may run a little below. Fed cattle prices are expected to average moderately higher this summer and gain additional strength in the fall if slaughter rates ease some from year-earlier levels.

Hog slaughter ran nearly a fifth above a year earlier in the opening months of 1967, but since April, gains over a year earlier have been narrowing. Apparently higher feed costs and lower hog prices have induced producers to cut back production. The spring pig crop was up 1 percent from a year earlier, but estimated March-May farrowings were down 2 percent from a year ago. By fall, hog slaughter rates will likely average below a year earlier. Hog prices are expected to move seasonally lower this fall, but may gain some strength from reduced beef and possibly lower poultry supplies.

Total milk production during the first half of 1967 was about the same as a year earlier. Increases in output per cow during the remainder of the year are expected to average below large gains in late 1966 and early 1967. However, milk production in the last half of the year is expected to be near a year earlier.

Production of poultry meats in the first 6 months of 1967 was up 16 percent from a year earlier. Gains were shared by both broilers and turkeys, although turkey production showed the largest increase. Large supplies of poultry meats combined with a big increase in red meats in the first half of 1967, pushed poultry prices considerably below a year earlier. Lower prices and current high feed costs apparently are bringing about a slowing in the expansion of broiler and turkey production. The poultry supply situation is uncertain due to prospects for lower feed prices and possible improvement in product-feed price ratios.

Egg production during the first half of 1967 was up 6 percent from a year earlier. Although a reduction in the expansion in output is likely for the remainder of the year, production for the year is expected to be up sufficiently to result in an increase in per capita use of eggs.

If current prospects materialize, the outlook for 1967 crops points to substantially increased production and lower average crop prices compared with 1966. Total cropland planted in 1967 is estimated at 318 million acres, up 7 percent from last year. With nearly 20 million more acres planted, and higher yields estimated for a number of important crops, total crop production will be up substantially. The first official estimate of total crop production will be released in the Crop Report on August 10, 1967.

The 1967 wheat crop is estimated at 1.6 billion bushels, 22 percent more than last year. Wheat prices in July declined during the harvest but were still holding above the price support loan rate. For the rest of the year they are expected to average below last season but will likely average above the loan rate of \$1.25 per bushel.

The 1967 feed grain crop (with an allowance for sorghum grain) was estimated in July at a record 169 million tons, up 8 percent from the 1966 crop. As a result, prices have recently been adjusting lower.

On July 1, estimated acreage planted to cotton was 9.7 million acres, 6 percent less than the 1966 level. The smaller planted acreage reflects increased participation in the 1967/68 cotton program and adverse weather during the planting season in the Carolinas and some other areas of the Eastern and Central States. Poor weather either prevented plantings or resulted in abandoned acreage, some of which has been replanted to soybeans.

Total acreage planted to soybeans for 1967 is estimated at a record 41 million acres, 10 percent above the 1966 level. Increased plantings were indicated in most regions with the largest gains in the South Atlantic and South Central regions. Soy-

bean prices to farmers declined in July to \$2.66 per bushel, and may decline further if growing conditions are favorable.

Supplies of fresh vegetables during late summer are expected to run seasonally heavy and prices will likely average slightly below a year earlier. Acreage of all principal processing vegetables is well above the 1966 level. If yields are average, total production could run substantially higher. Prices in the coming months probably will average below year-earlier record levels.

The 1967 acreage of potatoes for harvest is estimated moderately below a year earlier. However, late summer and fall production is expected to run above a year ago, and prices will likely average lower.

Generally, lighter supplies are in prospect for fresh and processed deciduous fruits in late summer and fall, and prices will likely average higher compared with a year earlier.

Food expenditures in the second quarter of 1967 were at an annual rate of \$96 billion, up $3\frac{1}{2}$ percent from a year earlier. The expenditure gain reflected an estimated 1 percent increase in sales by retail food stores and about a 6 percent increase in sales by eating and drinking places. The percentage of income spent for food in the second quarter dropped to slightly below 18 percent.

Food store sales are expected to expand during the last half of the year in response to a continued rise in consumer incomes. As a result, food expenditures for the year likely will total around \$97 billion. Slightly less than 18 percent of disposable income likely will be spent for food, down from 18.3 percent for 1966.

Retail food prices in the second quarter of 1967 averaged fractionally above a year earlier, due entirely to higher restaurant food prices. However, the second quarter level was 1 percent below the peak reached in the third quarter of 1966. Smaller supplies are expected for several important food products compared with the relatively high production levels earlier in the year. With prospects for a further strengthening in consumer demand, average retail food prices are expected to rise seasonally this summer and average higher than during the second half of last year. Higher prices are likely for most livestock products, but relatively stable prices are in prospect for most crop products. Relatively low prices are likely for eggs, citrus fruits, potatoes, fats and oils, and coffee.

Per capita food consumption in 1967 is expected to average about 1 percent above 1966. Per capita consumption of livestock products was relatively large during the first half of the year, but may fall below year-earlier rates late in the year. Consumption of livestock products averaged 4 percent above a year earlier in the first quarter and 2 percent larger during the second quarter. Increases for the year are expected in per capita consumption of meat, poultry, eggs, and citrus fruits. Lower per capita consumption is likely for noncitrus fruits, animal fats, and most dairy products.

The domestic demand for feed and other nonfood uses of major agricultural products expanded slowly this season, compared with last year. However, with the outlook for somewhat lower prices for the major grains and a continued rise in consumer incomes, domestic use during the remainder of calendar 1967 is expected to strengthen.

Domestic consumption of feed grains during 1966/67 has been running about the same as last year's record consumption. Livestock product-feed price ratios have been generally less favorable in 1966/67 than a year earlier. But, the outlook for the rest of calendar 1967 is for improvement in product-feed price ratios. In addition,

Table 4.--Stocks of grains, July 1, 1967, with comparisons

Grain and position	July 1, 1959-61 average	July 1, 1966	July 1, 1967
	<u>Mil. bu.</u>	<u>Mil. bu.</u>	<u>Mil. bu.</u>
WHEAT			
On farms <u>1/</u>	115.9	130.8	147.1
Off farms <u>2/</u>	1,224.0	404.4	278.6
Total*	1,339.9	535.2	425.7
CORN			
On farms <u>1/</u>	1,279.2	1,323.6	1,330.0
Off farms <u>2/</u>	1,229.5	459.3	405.4
Total*	2,508.7	1,782.9	1,735.4
OATS			
On farms <u>1/</u>	264.0	240.7	198.2
Off farms <u>2/</u>	55.4	75.5	70.2
Total*	319.4	316.2	268.4
BARLEY			
On farms <u>1/</u>	62.4	46.1	56.0
Off farms <u>2/</u>	109.5	58.6	64.4
Total*	171.9	104.8	120.3
GRAIN SORGHUM			
On farms <u>1/</u>	43.9	71.4	84.1
Off farms <u>2/</u>	595.4	461.5	251.7
Total*	639.2	532.9	335.8
SOYBEANS			
On farms <u>1/</u>	29.7	19.2	85.4
Off farms <u>2/</u>	98.9	114.9	113.8
Total*	128.6	134.0	199.2

1/ Estimates of the Crop Reporting Board.2/ Including grain owned by Commodity Credit Corporation.

* Totals from unrounded data.

lower wheat prices are expected to stimulate wheat feeding in many areas during the coming season.

Relatively high soybean prices compared with product values in crop year 1966/67 limited soybean meal supplies available for feeding. Although the demand for soybean meal and other high-protein feeds was strong last fall, lower livestock prices relative to high-protein feed prices this spring held demand in the current season near year-earlier levels. In the coming months, ratios between livestock and feed prices are expected to turn more favorable for feeding. However, final use of high-protein feeds will be determined by the level of livestock output as well as prices.

Domestic consumption of cotton in 1967/68 is expected to run moderately below the estimated large use last year of 9.4 million bales. Estimated utilization in the coming months hinges heavily on a pick up in general economic activity and a continued high rate of military purchases.

So far this year, mill consumption of apparel wool has averaged sharply below 1966 levels. Prospects for a continued high level of apparel sales during the last half of 1967 will likely have a favorable effect on the demand for wool fabrics. However, competition from man-made fibers continues on the uptrend.

U. S. cigarette smokers broke another record last year. In the year ended June 30, 1967, a record 545 billion cigarettes were smoked, 9 billion more than in the previous year. Consumption of other tobacco products last year showed declines from 1965/66. In the current year, recently introduced 100 millimeter cigarettes could be a significant factor in determining cigarette tobacco utilization.

The carryover situation for crops has changed substantially in the past few years. Stock levels of wheat declined again this year and feed grain stocks were down slightly. The soybean carryover on September 1, 1967, is expected to be more than double the small stocks of last year, but cotton stocks on August 1 were down sharply from last year.

Carryover stocks of wheat on July 1 were 426 million bushels, the lowest since 1952. However, the 1.6 billion-bushel crop this year, prospects for domestic utilization around 730 million bushels, and an export target of 3/4 of a billion bushels, indicates carryover next July may total above this year's level.

The July 1, 1967, carryover of total feed grains was 65 million tons, down slightly from a year earlier. Government stocks, which have been declining in recent years, totaled only 21 million tons, some 15 million below a year earlier. On the other hand, privately held stocks were 8 million tons greater than in the previous year, and considered more than sufficient to meet requirements until the end of the crop year. If present carryover expectations materialize, privately held stocks on October 1 will be record high.

Stocks of soybeans in all positions on July 1, 1967, totaled 199 million bushels, nearly one-half larger than a year earlier. Larger stocks this year are due to the record 1966 crop and the slower rate of increase in utilization reflecting higher soybean prices relative to product values, and competition from substitute products.

The August 1, 1967, carryover of cotton is estimated to total about $12\frac{1}{2}$ million bales, nearly $4\frac{1}{2}$ million less than last August 1. Carryover stocks are lower because of increased utilization (domestic and foreign), reduced acreage under the 1966 acreage diversion program, and unfavorable weather in the 1966 growing season. Government held stocks of cotton also declined sharply in 1966/67. Commodity Credit Corporation stocks on July 14 totaled 6.3 million bales, about one-half the amount held a year earlier. More than two-thirds of this cotton was of staple lengths less than 1 inch compared with less than 40 percent of last year's carryover.

Table 5.--U.S. agricultural exports, value of major commodities

Item	July-Sept.	Oct.-Dec.	Jan.-March	April-June	Year ending:	Annual per-						
					June 30	cent change						
	: 1965 : 1966	: 1965 : 1966	: 1966 : 1967	: 1966 : 1967	: 1966 : 1967	: Fiscal: Fiscal 1966 : 1967						
: - - - - - Millions of dollars - - - - - Percent - -												
Cotton, excluding linters	79	98	140	167	96	158	71	119	386	542	-34	40
Dairy products	54	29	42	20	42	30	36	43	174	122	-19	-30
Feed grains, excluding products	295	326	351	308	343	277	356	240	1,346	1,151	44	-14
Fruits and preparations	96	92	86	79	70	69	74	80	327	320	13	-2
Soybeans	101	96	271	302	167	184	194	184	734	767	23	4
Tobacco, unmanuf. 1/	100	145	150	191	84	93	62	121	395	550	0	39
Vegetables and preparations	37	36	43	50	41	40	50	46	170	172	10	1
Wheat and flour	337	404	306	372	367	263	393	274	1,402	1,312	13	-6
Rice	41	52	71	68	57	100	53	89	222	309	9	39
Other	353	354	426	394	379	381	365	392	1,521	1,521	3	0
Total exports 2/	1,492	1,631	1,887	1,951	1,645	1,597	1,653	1,588	6,677	6,766	10	1

1/ Value of export payment included for most exports (payments started in fiscal year 1967).

2/ Totals may not add due to rounding.

Exports of U.S. agricultural products eased ahead of previous year's record by 1 percent in fiscal 1967 (July 1, 1966-June 30, 1967), reaching \$6.8 billion. Sharp increases in exports of cotton, tobacco, and rice barely offset substantial declines for dairy products and feed grains. Smaller advances were also made in oilseeds and products, and vegetables and preparations (table 5).

The quarterly pattern of exports in 1966/67 was not uniform. In the first quarter of 1966/67 (July-September 1966) the total value of exports was over 9 percent above a year earlier. In the second quarter the percentage increase above a year earlier declined to 3 percent and by the third and fourth quarters exports were running slightly below a year earlier.

The value of cotton exports in 1966/67 rose 41 percent, primarily to meet a record high demand in the foreign Free-World countries, and to help replenish foreign stocks. Japan, Taiwan, Republic of Korea, Canada, and Italy were the largest markets in 1966/67.

The value of tobacco exports rose more than one-third above fiscal 1965/66. Several factors contributed to higher U.S. tobacco exports. United Nations' sanctions against tobacco from Rhodesia limited the supplies available to European markets, the export payment program, and the high quality of flue-cured varieties in the United States also encouraged higher demand for U.S. tobacco.

Exports of soybeans were up 4 percent, reaching \$767 million. Japan continued to be the largest customer for our soybean exports and the European Economic Community (especially West Germany) was also a large market. Exports of protein meal were up 9 percent in 1966/67.

In other principal commodity groups, grains and preparations were down nearly \$186 million from 1965/66. Feed grains dropped 14 percent. The value of feed grain exports was up during the first quarter of 1966/67 but declined steadily thereafter. Corn exports accounted for most of the decline, although there was a substantial drop in barley and oats. Supplies of feed grains for export were up in other countries resulting in larger quantities moving in world channels.

Larger U.S. exports of grain sorghums partly offset the decline in corn, oats, and barley. For July-June 1966/67, sorghum exports were 21 percent higher than in the previous year.

The value of U.S. exports of wheat and wheat flour during the first two quarters of fiscal 1967 was above the corresponding quarters of 1965/66, but declined during the next two quarters and for the year was 6 percent below that of 1965/66. Wheat exports to India showed the largest decline, dropping over 40 percent. However, the decline was partly offset by increased exports of grain sorghums and rice to India.

Rice exports rose 39 percent in fiscal 1966/67. Viet-Nam was the largest market and received more than one-third of the total.

Exports of animals and animal products from the United States totaled \$716 million in 1966/67, 8 percent below 1965/66. Dairy products, particularly nonfat dry milk, accounted for most of the decline.

Partly offsetting declines in other animal products were increased exports of hides and skins, and meats and meat products. Exports of hides and skins in 1966/67 totaled nearly \$147 million, 6 percent above those in 1965/66.

U.S. agricultural imports totaled \$4.5 billion in fiscal year 1966/67, about the same as a year earlier. Imports of beef and veal, dairy products, sugar, vegetables, and fruits were higher. For animals and animal products, the increase in meats, meat products, and dairy products was about offset by declines in apparel wool, hides and skins, and dutiable cattle. Imports of coffee, which totaled \$978 million in 1966/67, declined 16 percent. The value of cocoa beans increased sharply, while quantity was considerably below the previous year. Smaller production resulted in a rise in prices to more normal levels. Other declines were noted for crude natural rubber, tea, and carpet wool. Imports of bananas advanced to a record 3,826 million pounds.

Production expenses so far this year have continued to advance. During January-June, expenses were estimated at \$34.4 billion (seasonally adjusted annual rate), up 5 percent from the same period in 1966 (table 3). The index of prices paid for production items, interest, taxes, and wages was $3\frac{1}{2}$ percent higher than in the first 6 months of last year. Price increases were noted for most major production items, except for feeder livestock which averaged more than 5 percent below the first half of last year. The number of feeder calves placed on feed in the early months of this year was running below year-earlier levels.

Farmers have been paying nearly 6 percent higher prices for the feeds they purchased during the first half of this year. Wage rates, interest, and taxes also continued their long-term uptrend. On July 1, 1967, the composite farm wage rate stood at \$1.10 per hour, up 9 percent from a year ago. However, higher wages in the non-farm sector continue to attract farm workers. In mid-June there were 5.7 million family and hired workers on farms, 9 percent less than in the same period of 1966.

The strong demand for farm tractors, which has been under way for a number of years, showed some signs of weakening in early 1967. Retail sales of farm tractors during the first 5 months of 1967 averaged $6\frac{1}{2}$ percent below the same period of 1966 according to trade estimates. Some of the factors which apparently influenced this decline, compared with a year ago, were higher tractor prices relative to prices received by farmers, lower gross and net farm income, and the large number of farm tractors sold in recent years.

Sales of some farm machinery, particularly grain harvesting equipment, however, are continuing to run strongly ahead of year-earlier levels. Trade data (Farm and Industrial Equipment Institute) show combine sales in January-May 1967 were up nearly 30 percent from year-earlier levels. This increase in combine sales likely reflects the additional 10 million acres of wheat planted for harvest this year. Sales of corn heads for combines were also running well above the same period in 1966.

Farmers' expenditures for fertilizer in 1967 have also been averaging well above year-earlier levels. More intensive fertilization of crops and the 20 million additional acres being cultivated this year are expanding the demand for fertilizer. During the first 3 months of 1967, production of nitrogenous materials, superphosphate, and potash was running considerably above the same period last year.

Farm real estate values on March 1, 1967, totaled a record \$182.1 billion, up 5 percent from March 1966. The value per acre averaged \$167, up \$10 from a year earlier. However, the annual per acre increase was less than the rate of increase in 1965/66. Lower prices from the record large citrus crop depressed market values of citrus groves in Florida and California and offset some of the gain in prices for

other farmland in these States. Tight credit also affected farm real estate prices in late 1966 and early 1967. As a result, seller-financing, by installment land contracts, increased in importance last year.

Farm operators, both tenants and owners, represented around two-thirds of the total farm real estate buyers last year. Farm enlargement continued to be the major reason for purchases. With an increase in per acre values and a continued uptrend in the average size of farm, the average value of a farm operating unit in March totaled \$63,200.

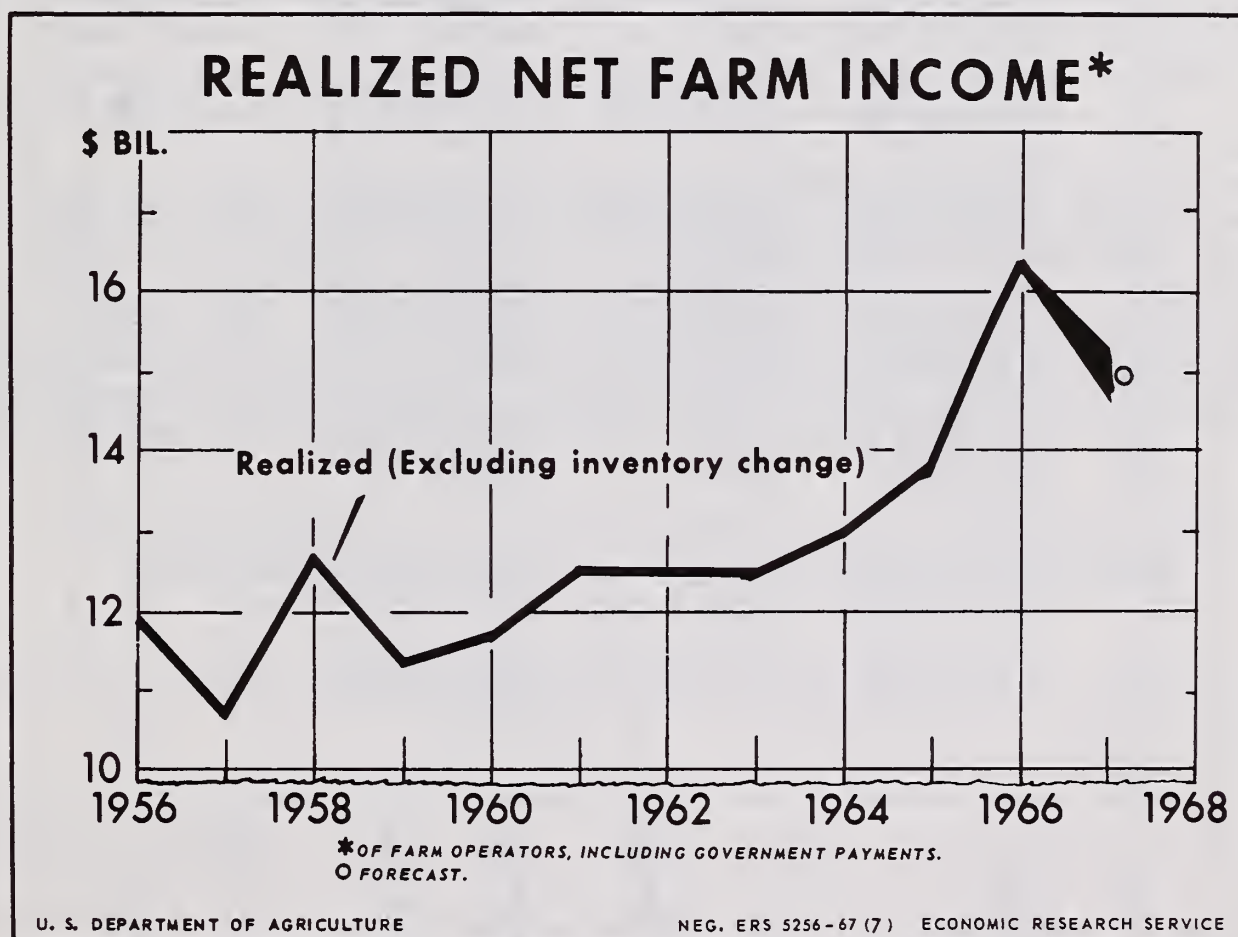


Table 6.--Other economic factors affecting agriculture (seasonally adjusted annual rates)

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Item	Unit	1965				1966				1967			
		Year	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year
		1966	1965	II	III	IV	I	II	III	IV	I	II	III
Gross National Product	Bil. dol.	743.3	683.9	675.4	690.0	708.4	725.9	736.7	748.8	762.1	766.3	775.3	
Gross National Product (1958 prices)	Bil. dol.	652.6	616.7	609.7	620.7	634.4	645.4	649.3	654.8	661.1	660.7	664.6	
Disposable personal income 2/	Bil. dol.	508.8	472.2	464.0	479.4	489.4	497.5	503.3	512.4	522.0	532.7	540.2	
Personal consumption expenditures	Bil. dol.	465.9	433.1	428.1	436.4	447.8	458.2	461.6	470.1	473.8	480.2	488.9	
Durable	Bil. dol.	70.3	66.0	64.2	66.1	68.6	71.6	68.2	70.9	70.6	69.4	72.1	
Nondurable	Bil. dol.	207.5	191.2	189.8	192.4	198.0	203.2	207.1	209.5	210.3	214.2	216.6	
Services	Bil. dol.	188.1	175.9	174.2	177.8	181.2	183.5	186.3	189.8	192.9	196.6	200.2	
Personal savings	Bil. dol.	29.8	27.2	24.0	30.9	29.3	26.6	28.7	29.2	34.6	38.8	37.1	
Net Government receipts	Bil. dol.	157.5	139.1	140.1	136.4	142.8	150.9	157.5	160.2	161.5	159.7	---	
Government purchases	Bil. dol.	154.3	136.4	133.9	138.1	142.3	146.5	151.2	157.7	161.7	170.4	175.2	
Federal	Bil. dol.	77.0	66.8	65.4	67.6	69.8	72.1	74.9	79.5	81.5	87.1	89.5	
State and Local	Bil. dol.	77.2	69.6	68.6	70.4	72.5	74.3	76.2	78.1	80.2	83.3	85.6	
Deficit or surplus (on income and product account)	Bil. dol.	3.2	2.7	6.1	-1.7	.6	4.6	6.1	2.6	-.3	-10.8	---	
Gross private domestic investment	Bil. dol.	118.0	107.4	105.1	108.2	112.3	115.2	118.5	116.4	122.2	110.4	106.1	
Fixed investment	Bil. dol.	104.6	98.0	96.3	98.8	102.4	105.3	104.5	104.9	103.7	103.3	104.0	
Residential	Bil. dol.	24.4	27.0	27.0	26.9	26.8	27.0	25.8	23.7	20.9	21.4	22.7	
Nonresidential	Bil. dol.	80.2	71.1	69.3	71.9	75.7	78.3	78.7	81.2	82.8	81.9	81.3	
Change in business inventories	Bil. dol.	13.4	9.4	8.8	9.4	9.9	9.9	14.0	11.4	18.5	7.1	2.1	
Gross Retained Earnings	Bil. dol.	89.7	83.7	82.4	84.2	86.2	87.6	88.4	89.5	93.6	88.9	---	
Excess of Investment	Bil. dol.	-28.3	-23.8	-22.7	-24.0	-26.1	-27.6	-30.1	-26.9	-28.6	-21.5	---	
Net Exports of Goods and Services	Bil. dol.	5.1	6.9	8.2	7.4	6.1	6.1	5.4	4.6	4.3	5.3	5.2	
Total civilian employment 3/	Millions	72.9	71.1	70.8	71.3	71.8	72.3	72.5	73.1	73.7	74.0	73.8	
Per capita disposable personal income (1958 prices)	Dollars	2,317	2,232	2,199	2,258	2,291	2,304	2,302	2,324	2,341	2,373	2,387	

1/ Preliminary. 2/ Excludes interest paid by consumers and net personal transfers to foreigners. 3/ U.S. Department of Labor.

U.S. Department of Commerce

Series revised beginning 1964. For details and earlier years see, Survey of Current Business, July 1967.

GENERAL ECONOMIC SITUATION

The pace of aggregate economic activity accelerated during the second quarter of 1967. The physical volume of goods and services produced rose after a slight dip in the first quarter of the year. And with prices continuing to advance, the total value of final goods and services produced rose about twice as much as in the first quarter. Preliminary data indicate that gross national product rose to \$775 billion 1/ from a revised first quarter level of \$766 billion. The first to second quarter increase of \$9 billion compares with an average quarterly gain of \$13½ billion during 1966. Although economic activity picked up in the second quarter, growth during the first half of 1967 slowed appreciably.

Barring a prolonged strike in any major industry, economic growth is expected to increase more rapidly during the second half of 1967. Government and consumer demand is expected to increase further and the recent recovery in homebuilding activity is expected to continue. Investment spending probably will be steady to up slightly. Expanding final sales should moderate the decline in inventory growth and may even result in some increase. For the year, the gross national product may average around 5 to 5½ percent above the 1966 level of \$743 billion. In 1966 the increase was 8½ percent and the average annual gain during 1961-66 was 6-3/4 percent.

The pick-up in economic activity during the second quarter was primarily due to a faster rate of increase in consumer demand and a slower rate of decline in inventory growth compared with the first quarter. Government demand for goods and services continued to rise in the second quarter but at a sharply slower rate than the above average first quarter gain. Nonresidential capital spending continued on a high plateau, but residential construction activity picked up. On balance, final sales (GNP less inventory change) rose \$14 billion, slightly less than during the first quarter but slightly more than the average quarterly gain for all of last year (table 7).

Table 7.--Change from previous quarter in gross national product,
final sales, and change in business inventories, 1965-IV
to 1967-II, seasonally adjusted annual rates

(Billions of current dollars)														
Item	:	1965	:	1966				:	1967					
	:	IV	:	I	:	II	:	III	:	IV	:	I	:	II <u>1/</u>
Gross national product	:	18.4	:	17.5	:	10.8	:	12.1	:	13.3	:	4.2	:	9.0
Final sales	:	17.9	:	17.5	:	6.6	:	14.8	:	6.2	:	15.6	:	14.0
Change in business inven- tories <u>2/</u>	:	.5	:	0	:	4.1	:	-2.6	:	7.1	:	-11.4	:	-5.0

1/ Preliminary. 2/ Represents the change in the change in business inventories. For example, the change in business inventories in the second quarter of 1967 (\$2 billion) less the change in the first quarter of 1967 (\$7 billion) equals minus \$5 billion.

1/ All data in this Section are seasonally adjusted annual rates unless otherwise specified. In addition, the Department of Commerce recently revised data contained in the national income and product accounts beginning with 1964.

Table 8.--Change from previous quarter in selected measures of personal income,
1965-I, to 1967-II, seasonally adjusted annual rates

Item	1965				1966				1967	
	I	II	III	IV	I	II	III	IV	I	II p.
- - - - - Billions of current dollars - - - - -										
Total personal income	9.8	9.8	14.5	11.5	11.7	9.5	12.0	12.3	11.3	6.0
Wages and salaries:	4.9	6.5	7.8	10.4	8.9	8.9	9.4	7.8	7.3	3.3
Manufacturing	2.8	1.4	2.6	3.3	3.4	3.8	2.8	2.9	.5	-6
Nonmanufacturing	1.7	3.9	3.3	4.6	3.5	3.2	3.5	3.0	4.8	2.1
Government	.5	1.1	1.9	2.7	1.8	2.1	3.0	2.0	2.0	1.6
Transfer payments	1.7	-8	4.2	-1.5	1.9	-5	2.1	3.5	3.3	.6
Personal tax payments	3.4	1.8	-9	1.5	3.7	3.7	2.8	2.7	.6	-1.6
Disposable personal income	6.4	8.0	15.4	10.0	8.1	5.8	9.1	9.6	10.7	7.5
Disposable personal income in constant 1958 dollars	5.2	5.0	13.0	8.0	3.6	.8	5.8	4.8	7.4	4.1
Disposable income per capita (Dol.)	27	34	71	43	35	23	38	41	47	31
Disposable income per capita in constant 1958 dollars	21	20	59	33	13	-2	22	17	32	14

p. Preliminary

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Efforts to adjust inventories to current and expected sales levels continued during the second quarter. Inventory stocks grew \$2 billion compared with \$7 billion in the first quarter and \$18½ billion in the fourth quarter of 1966. Inventories of manufacturing firms continued to rise more slowly in April and May, and declined slightly in June. Despite the slight decline during the last month of the quarter, the June level was still above the end of March. Manufacturers plan to increase inventories at about the same rate in the third quarter as in the second quarter.

The decline in inventories of retailers, underway since January, continued in the second quarter. Inventories of merchant wholesalers were lower than at the end of the first quarter. Most of the slower rise in total trade and manufacturing stocks so far this year has taken place in durable goods where the rapid build-up occurred last year.

Although inventories have been advancing more slowly, inventory-sales ratios continue at high levels compared with a year ago due to sluggish sales and subsequent unplanned inventory accumulation last year. The ratio for retail trade currently compares favorably with a year ago but those for manufacturers and merchant wholesalers are still sharply higher. However, preliminary indications for May and June point to some improvement in manufacturing sales and, therefore, a slight decline in inventory-sales ratios. Manufacturers expect sales to continue rising in the third quarter and these expectations are apparently justified.

New orders received by manufacturers rose substantially in May after dropping in late 1966 and early 1967. Orders for transportation equipment were particularly strong. In June, new orders rose further and reached the highest level since last September. New orders are a key indicator of future sales.

Despite indications of future increases in the level of economic activity, the effects of the inventory adjustment, necessitated mostly by lagging sales, has spread to some other sectors of the economy since the beginning of the year. Manufacturing plant operating rates are well below year-earlier levels. And the demand for labor lessened further during the second quarter as both employment and hours of work declined from the first quarter. Total civilian employment declined from 74.3 million in January to 73.3 million in May. Employment rebounded sharply in June to 74.1 million. Nevertheless, total wage and salary payments rose from the first to the second quarter of 1967. However, the \$3½ billion rise was substantially less than in the first quarter and also below the average quarterly gain during all of 1966. The slower rise in wage payments was due almost entirely to a decline in commodity producing industries and a sharply slower rise in distributive industries. A strike in the rubber industry was a factor explaining the decline in wage payments in manufacturing industries. Manufacturing wages picked up in June and should rise further in the third quarter if current indications of future increases in production are realized. Wages of service workers and Government employees increased about the same as in the first quarter. Other components of total consumer personal income rose about in line with gains in previous quarters with the exception of Government transfer payments to persons. Transfer payments continued to rise but at a sharply slower rate compared with the first quarter due to a decline in GI life insurance dividends. (Table 8.)

In summary, total consumer personal income continued to grow in the second quarter of 1967, but at a sharply reduced rate compared with the first quarter and earlier quarters. The second quarter level of \$619 billion was \$6 billion above the first quarter.

The slower rise in total personal income was also reflected in consumers' after-tax income. However, the effect of the slower rise in total income on disposable income was moderated by a temporary reduction in personal income tax payments, which are deducted from total personal income in arriving at disposable income. Personal tax payments to the Federal Government fell from the first quarter level due to abnormally large refunds associated with tax liabilities for 1966. Apparently the graduated withholding system adopted in 1966 resulted in over withholding for a number of people. Accordingly, disposable personal income in the second quarter rose \$7½ billion to \$540 billion, somewhat less than the first quarter rise.

Consumer disposable income is expected to continue rising throughout the year. Although the economy grew more slowly during the first half of 1967, consumers' after-tax income was not affected greatly. Corporate profits suffered much more. During the first half of 1967 disposable personal income rose at an annual rate of almost 7½ percent. The year-to-year gain last year was slightly larger. With the expected pick-up in economic activity, income should continue to rise in the last half of 1967. However, both the outlook for aggregate demand and consumer income could be modified if there are changes in taxes, prolonged strikes, or other disruptions to economic activity.

Despite a slower rise in disposable personal income during the second quarter of 1967 compared with the first quarter, consumer spending rose at a faster rate. Consumer spending for goods and services rose almost \$9 billion to \$489 billion. The second quarter rise was larger than the first quarter rise of \$6½ billion. The faster rate of increase in the second quarter reflected the combined effect of sharply higher durable goods sales and slightly higher nondurable goods sales. Spending for services rose about the same as in the first quarter. (Table 9).

Table 9.--Change from previous quarter in major categories of personal consumption expenditures, quarterly, 1965-III to 1967-II, seasonally adjusted annual rates

(Billions of current dollars)									
Item	1965		1966				1967		
	III	IV	I	II	III	IV	I	II	1/
Total personal consumption expenditures:	8.3	11.4	10.4	3.4	8.5	3.7	6.4	8.7	
Durable goods	1.9	2.5	3.0	-3.4	2.7	-.3	-1.2	2.7	
Nondurable goods	2.6	5.6	5.2	3.9	2.4	0.8	3.9	2.4	
Services	3.6	3.4	2.3	2.8	3.5	3.1	3.7	3.6	

1/ Preliminary.

Spending for durable goods, which declined in the first quarter, rose sharply due to increased automobile sales in the second quarter. Sales of new domestically produced passenger cars were running at an 8 million units seasonally adjusted annual rate in the second quarter compared with 7¼ million in the first quarter. In June the rate was over 8½ million units. Sales of foreign cars have been strong all year. Expenditures for nondurable goods were also higher, although the rate of increase was less than in the first quarter of the year.

With consumer spending rising more than income, personal saving declined from \$39 billion in the first quarter to \$37 billion in the second quarter. Personal saving as a percent of disposable income fell from 7.3 percent to 6.9 percent. Both the level of saving and the saving rate rose sharply in the fourth quarter of 1966 and first quarter of 1967. Current saving rates are high relative to rates in the first half of the sixties and help to explain the slower rate of economic growth during the first half of 1967.

In addition to increasing savings, consumers have added to their installment credit debt outstanding at a much slower rate in 1967. The slower growth in installment credit outstanding so far this year has been due almost entirely to a sharp decline in new credit growth, particularly for automobiles. Repayments have continued to increase. Nevertheless, extensions still exceed repayments resulting in continued but smaller increases in credit outstanding. With automobile sales picking up, consumer use of credit may rise more rapidly.

Residential construction activity increased sharply in the second quarter reaching a level $8\frac{1}{2}$ percent above the trough in the fourth quarter of 1966. Nevertheless, the second quarter level of \$22 $\frac{1}{4}$ billion was still 12 percent below a year earlier. The second quarter increase reflects the uptrend in total private housing starts since last November. The seasonally adjusted second quarter rate was $4\frac{1}{2}$ percent above the first quarter and 28 percent above the trough in the fourth quarter of 1966. In addition, the pattern of expansion has varied regionally (table 10).

Table 10.--Total private housing starts by region,
quarterly, seasonally adjusted annual rate

(Thousands of units)						
Year and quarter	Total <u>1/</u>	Northeast	North Central	South	West	
1967 II	1,263	188	322	524	229	
1967 I	1,209	251	312	470	175	
1966 IV	983	165	250	418	150	
1966 III	1,090	212	272	436	170	
1966 II	1,368	221	335	564	248	
1966 I	1,518	291	408	557	262	
1965 IV	1,576	296	446	587	247	
1965 III	1,451	264	350	584	253	
1965 II	1,545	285	373	584	303	

1/ Totals may not add due to rounding.

U. S. Department of Commerce.

The full impact of the rebound in housing starts has probably not been felt yet because of time needed for completion. Therefore, the volume of construction activity in any quarter reflects housing starts in a number of previous periods. The future course of housing activity will continue to depend heavily on the cost and availability of mortgage credit. Costs are relatively high but, unlike last year, there seems to be generally more funds available. Deposits at savings and loan associations and mutual savings banks, the most important sources of mortgage money, are rising strongly.

Table 11.--Annual percent changes in plant and equipment expenditures, 1963-67

Item	Actual			Actual 1966 to anticipated 1967 as reported in	
	1963-64	1964-65	1965-66	February	May
All industries <u>1/</u>	14.5	15.7	16.7	3.9	2.9
Manufacturing <u>1/</u>	18.4	20.8	20.2	3.5	3.4
Durable goods <u>1/</u>	20.0	20.9	22.7	4.6	3.6
Primary metals	31.1	20.0	14.0	8.6	4.3
Machinery	19.2	32.6	32.3	22.8	15.6
Transportation equipment	25.0	27.8	18.3	-9.0	-3.8
Stone, clay, and glass	10.7	14.9	16.6	-5.1	-15.6
Nondurable goods <u>1/</u>	16.9	20.7	17.6	2.3	3.2
Food and beverage	9.5	16.5	12.1	7.3	5.4
Textile	17.2	29.8	15.2	-11.6	-14.8
Paper	30.0	20.0	34.1	2.8	3.7
Chemical	22.4	31.7	15.3	1.9	2.6
Petroleum	15.0	13.7	15.8	3.7	7.2
Rubber	14.7	24.5	24.7	21.7	29.7
Mining	14.0	9.3	12.9	8.0	6.2
Railroad	27.5	23.1	14.2	-25.3	-22.6
Transportation other than rail	24.0	18.4	22.3	14.7	11.1
Public utilities	10.1	11.7	21.1	8.8	8.5
Communications	13.4	15.0	13.6	} 3.0	.5
Commercial and other	8.0	8.8	8.1		

1/ Includes industries not shown separately.

U.S. Department of Commerce, Office of Business Economics, and Securities and Exchange Commission.

In line with earlier business investment plans, nonresidential fixed investment spending continued to decline slightly from the fourth quarter 1966 peak. In the second quarter a rise in spending for producers' durable equipment was more than offset by a decline in nonresidential structures. Investment spending is expected to rise during the last half of the year according to the latest survey of investment plans conducted by the Department of Commerce and the Securities and Exchange Commission in late April and May. The year-to-year rise in spending for new plant and equipment is now expected to be about 3 percent compared with 4 percent reported three months earlier. In 1966 the rise was about 17 percent (table 11).

The combined effect of recent additions to capacity and slight decline in sales has had an important effect on manufacturers' evaluation of current capacity. Companies holding 50 percent of total fixed assets in manufacturing on March 31, 1967, considered current capacity adequate for projected needs during the next twelve months. This was up from 45 percent a year earlier. In contrast, companies considering current capacity inadequate held 45 percent of total manufacturing fixed assets on March 31, 1967, and 51 percent on March 31, 1966. Nevertheless, manufacturers' expectations for some pickup in sales as well as the restoration of the investment tax credit and accelerated depreciation tend to support indications for some slight improvement in investment outlays during the last half of the year. The profit picture is not clear but rising sales should have a favorable impact on earnings, which fell sharply in the first quarter of 1967. Costs, however, will also probably be higher, especially labor costs. Labor strikes have occurred in some key industries, and labor contracts are due to expire in others during the second half.

Government spending for goods and services rose further in the second quarter but at a sharply slower rate compared with the first quarter. The slower rate of increase was due almost entirely to a much smaller increase in Federal purchases of goods and services. In the first quarter of the year, Federal spending for goods and services rose more than \$5½ billion to \$87 billion. This increase was significantly larger than the average quarterly rise of \$2-3/4 billion during 1966. In the second quarter of 1967, Federal spending rose about \$2½ billion, much more in line with recent experience. Current indications point to further increases in Federal purchases during the remainder of the year. New orders and order backlogs for defense products continue at high levels. Other types of Federal spending did not change much from first quarter levels.

Data on total Federal receipts for the second quarter are not available at this time due to lack of information on corporate profits tax accruals. However, it is unlikely that total receipts will exceed the first quarter level. Thus, with spending continuing to rise, it is very probable that the second quarter deficit, as measured in the national income and product accounts, will rise some from the first quarter level of \$12 billion. The large first and second quarter deficits were very important in moderating the slowdown in economic growth during the first half of the year. However, in view of prospective increases in spending and general economic activity, the Administration revised its request for an increase in personal and corporate tax payments. On August 3, 1967, the President requested a 10 percent surcharge beginning October 1, 1967, for individuals and retroactive to July 1, 1967, for corporations. The original tax proposal, made in January 1967, called for a 6 percent surcharge effective July 1, 1967.

Most long-term interest rates rose in the second quarter. Large Federal deficits during the first half of 1967 in addition to other factors such as corporations maintaining fixed investment close to peak levels in the face of reduced flows of internally generated funds, anticipations of tighter credit and higher costs in the last half of the year, and large financing by State and local Governments, have created large demands for long-term capital funds. As a result, yields on long-term obligations during the past few months have reversed their downward trend since last summer and fall. Yields on long-term Government bonds have risen and, in some cases, exceeded peak levels last year. The same situation prevailed for corporate issues.

In contrast, interest rates in short-term markets continued to decline during most of the second quarter as a large volume of funds flowed into short-term markets. Developments on short-term markets continue to reflect Federal Reserve efforts to ease credit conditions although in late June and early July interest rates rose. Seasonally adjusted total reserves are running substantially above year-end 1966 levels and member bank borrowings at Federal Reserve Banks continue to decline. As a result, free reserves (excess reserves less borrowings) averaged \$266 million in June, sharply higher than the abnormally low level of a year earlier. The rise was due mostly to reduced borrowing by member banks from Federal Reserve Banks.

BALANCE OF PAYMENTS

The U.S. balance of payments deficit (liquidity basis) rose from \$1.7 billion 1/ in the fourth quarter of 1966 to \$2.2 billion in the first quarter of 1967 (table 12). The first quarter balance of payments deficit reflected a decline 2/ in U.S. official reserve assets of \$4.1 billion and a decline in U.S. liquid liabilities to all foreigners of \$1.9 billion. Numerous developments in the first quarter of 1967 affected the balance of payments. A rise in net exports of goods and services and a decline in U.S. private capital outflows had a favorable effect on the balance of payments. However, these were more than offset by an increase in U.S. Government capital outflows.

Net exports of goods and services rose for the first time in roughly three years with the exception of the period during the shipping strike in early 1965. In the first quarter of 1967 net exports of goods and services amounted to \$5.3 billion compared with \$4.3 billion in the fourth quarter of 1966. Preliminary data indicate that net exports in the second quarter held at the first quarter level. The merchandise trade balance contributed importantly to the first quarter rise in the surplus for all goods and services, increasing from \$2.9 billion to \$4.0 billion. Virtually all of this rise was due to an increase in nonmilitary merchandise exports which rose from \$29.6 billion in the fourth quarter of 1966 to \$30.8 billion in the first quarter of 1967. Exports of nonagricultural commodities rose about \$1.7 billion while exports of agricultural commodities fell about \$0.5 billion from the fourth quarter. Total merchandise imports rose slightly in the first and second quarters following two years of substantial increases. The smaller rise reflected the slowdown in domestic business activity.

Transactions affecting the nonmerchandise balance on goods and services were largely offsetting in the first quarter. Receipts under military sales contracts rose sharply but income on U. S. assets abroad was lower. And, military expenditures abroad also rose.

1/ All data in this section are seasonally adjusted annual rates unless otherwise specified. 2/ Declines in official reserve assets reflect increases in the deficit (liquidity basis), and declines in U.S. liquid liabilities to all foreigners reflect decreases in it.

Table 12.--International transactions of the United States, 1965-67
(excluding military grant-aid)

Item	(Billions of dollars, seasonally adjusted annual rates)											
	1965				1966				1967			
	year	III	IV	I	II	III	IV	year	I	II	III	IV
Exports of goods and services	39.1	40.3	40.5	42.0	42.5	43.7	44.0	43.0	43.0	43.0	43.0	43.0
Payments to foreigners	39.1	40.3	40.5	42.0	42.5	43.7	44.0	43.0	43.0	43.0	43.0	43.0
Imports of goods and services	32.2	32.9	34.4	36.0	37.1	39.0	39.7	37.9	37.9	37.9	37.9	37.9
Transfers to foreigners, net	2.8	2.9	2.6	3.4	2.9	2.8	2.5	2.9	2.9	2.9	2.9	2.9
Personal	.7	.7	.7	.6	.7	.6	.6	.6	.6	.6	.6	.6
Government	2.2	2.2	2.0	2.8	2.3	2.2	1.9	2.3	2.3	2.3	2.3	2.3
Net foreign investment	4.1	4.5	3.4	2.7	2.5	1.8	1.8	2.2	2.2	2.2	2.2	2.2
Change in U.S. Government assets, net; increase (+)	1.6	1.0	1.8	1.5	2.0	1.3	1.4	1.5	1.5	1.5	1.5	1.5
Change in U.S. private assets, net; increase (+)	3.7	3.5	3.2	3.9	4.5	3.7	4.3	4.1	4.1	4.1	4.1	4.1
Change in nonliquid assets in the U.S., net; increase (-)	- .3	- .9	- 1.0	- 1.1	- 4.4	- 1.5	- 3.1	- 2.5	- 2.5	- 2.5	- 2.5	- 2.5
Errors and omissions, net	.4	1.0	.4	.9	.8	- 1.1	.9	.4	.4	.4	.4	.4
Balance of payments, liquidity basis	- 1.3	- 1.9	- 1.0	- 2.6	- .5	- .6	- 1.7	- 1.4	- 1.4	- 1.4	- 1.4	- 1.4
Change in U.S. official reserve assets, net; increase (+)	- 1.2	- .2	- 1.1	- 1.7	- .3	- .3	0	- .6	- .6	- .6	- .6	- .6
Change in liquid liabilities to all foreigners, net; increase (-)	- .1	- 1.7	.1	- .9	- .2	- .3	- 1.7	- .8	- .8	- .8	- .8	- .8

p. Preliminary.

n.a. - Not available.

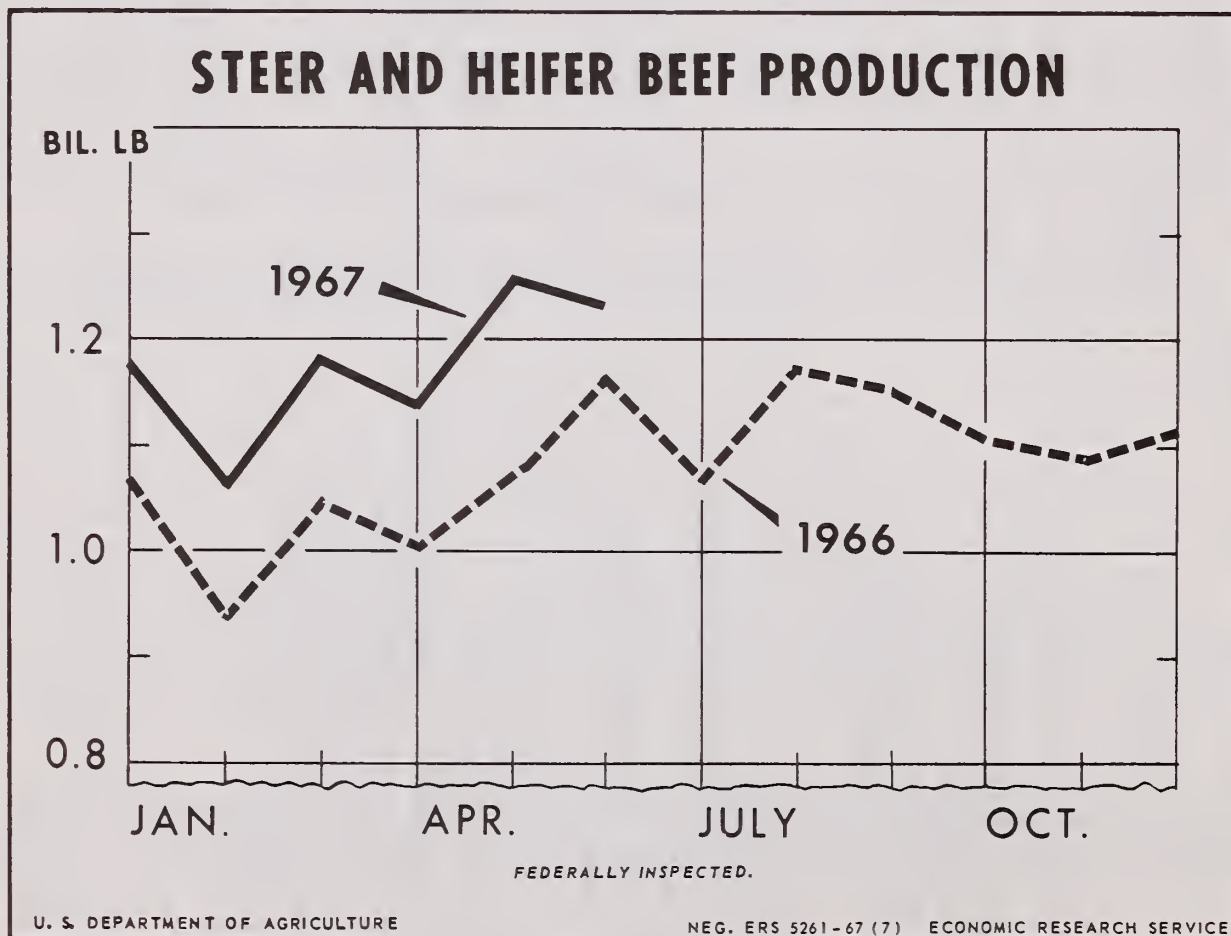
U.S. Department of Commerce.

The outflow of U. S. Government capital rose from \$1.4 billion in the fourth quarter of 1966 to \$3.0 billion in the first quarter of 1967. Long-term and short-term assets increased, and scheduled and nonscheduled loan repayments by foreign governments to the U. S. Government were lower. Scheduled loan repayments were about the same but nonscheduled repayments dropped to zero.

Private capital outflows declined from \$4.3 billion in the fourth quarter of 1966 to \$4.0 billion in the first quarter of 1967. Capital outflows for direct investment declined from \$3.7 billion to \$2.8 billion. The slowdown in foreign business expansion and the large outflow of funds late last year contributed to this slower rise. The large rise in outflows late last year probably resulted in some unutilized funds which will probably be used this year. Outflows for direct investment were at about \$3½ to \$4 billion in the last three quarters of 1966.

In contrast to the outflow of direct investment capital, the flow of other long-term U.S. private capital shifted from an inflow in the fourth quarter of 1966 to an outflow in the first quarter of 1967.

The easing in domestic credit conditions contributed to a sharp rise in U.S. purchases of newly issued foreign securities in the first quarter. In addition, liquidations of outstanding foreign securities declined from the fourth quarter of 1966 to the first quarter of 1967 and had an adverse effect on the balance of payments.



CURRENT COMMODITY SITUATION

Livestock and Products

Meat Animals

The livestock situation is changing from big gains in slaughter and lower prices early in 1967 to somewhat smaller increases in slaughter and more favorable price to producers. By fall, prices of most classes of livestock are expected to average higher than a year earlier.

Fed cattle marketings in April-June were 9 percent larger than they were in these months a year earlier; but summer marketings are not expected to be up as much. On July 1, cattle feeders stated intentions to market 2 percent more cattle out of feed-lots this summer than they did a year ago.

There were 8.7 million head of cattle and calves on feed on July 1, about 2 percent less than a year ago. However, there were 8 percent more cattle weighting more than 900 pounds while lighter weight cattle were down 5 percent. Thus, fed cattle marketings this summer are expected to be larger than a year ago, but smaller than in the spring.

Marketings this fall likely will be smaller than they were a year ago, reflecting the reduction in lighter weight animals on feed at midyear. But fed cattle marketings late this year will also be determined in part by the number of cattle placed on feed this summer. The supply of feeder cattle available is a little smaller than it was a year ago. However, placements this summer are expected to be much the same as they were in the summer months last year. Although, range conditions are favorable and feeder cattle are in strong hands, cattle feeders likely will maintain lot capacity because of the improved outlook for fed cattle prices.

Choice steers at Chicago in late July and early August were selling for around \$26.40 per 100 pounds, 86 cent above a year ago. Prices are expected to advance a little further later this summer. The July-September 1966 average was \$25.779 per 100 pounds. Prices next fall likely will show additional strength and run above the October-December 1966 average of \$24.98.

Hog producers stated plans earlier this summer to have 3 percent fewer sows farrow in June-November than in these months last year. Producers are cutting back production because feed costs were higher and hog prices were lower last fall and winter. The spring pig crop was 1 percent larger, but all of the increase came in December-February. March-May farrowings were down 2 percent.

Hog slaughter last winter under Federal inspection was 23 percent larger than a year earlier, but in the spring it was about 10 percent larger. Slaughter is expected to taper off compared with a year earlier later this summer and by fall it likely will be smaller. Thus, the seasonal increase in hog slaughter next fall will be small.

Hog prices in late July and early August were averaging around \$22.40 (barrows and gilts at 8 markets). Prices next fall will be seasonally lower but may average a little above last year's October-December average of \$20.37 per 100 pounds.

Lamb slaughter in the spring was 9 percent smaller than a year earlier. This contrasts with the 14 percent increase last winter. Slaughter lamb prices reflected these changes. Early this year, Choice slaughter lambs at Denver were \$7 or more below prices a year earlier.

However, prices rose in the spring and they are now higher than in 1966. Slaughter lambs averaged \$24.75 in late July, about \$1.27 above a year earlier.

Prices for lambs are expected to average a little above 1966 levels during the remainder of the year because slaughter likely will be moderately smaller the rest of this summer and next fall. Choice slaughter lambs at Denver averaged \$23.14 in October-December 1966.

Dairy

Second quarter milk production was down fractionally from a year ago. Total output in the first half of this year was 63 billion pounds, about the same as year-earlier, but 5 percent below the 1961-65 average. The gain from a year ago in output per cow slowed to 2.9 percent in June, compared with the 4.9 percent average increase from a year earlier during September 1966 to May 1967. However, these large gains were from abnormally low year-earlier levels, and gains in milk per cow during the rest of 1967 are likely to be more moderate. The decline from a year earlier in dairy cow numbers was an estimated 4 percent in the second quarter, somewhat less than the first quarter drop and sharply below the 6 percent decline in the second quarter of 1966. Last half production this year is expected to be near that of 1966.

Prices farmers received for milk in April-June were \$4.73 per 100 pounds, 8 percent above year-earlier levels. Milk prices to farmers in the first half of 1967 averaged 10 percent above a year-earlier. The April to June seasonal decline in milk prices received by farmers was smaller than normal because actions in Federal order markets increased June Class I prices above levels that otherwise would have occurred. Prices farmers receive in the third quarter likely will average near year-earlier levels.

June retail prices of dairy products were up slightly from May and 6 percent above last June, but were down 1 percent from the October 1966 peak. Prospects are that retail dairy product prices will rise less in the last half than in 1966 and the rise from a year earlier will lessen.

On June 30, President Johnson issued a proclamation that will reduce dairy imports by bringing a number of dairy products, including butterfat-sugar mixtures, Colby cheese and frozen cream, under quotas for the first time. The new quotas were effective July 1, 1967. These products accounted for most of the sharp increase in dairy import from 0.9 billion pounds in 1965 to 2.8 billion pounds milk equivalent in 1966 and an annual rate of 4.3 billion in the first half of 1967. The quota action is expected to hold total 1967 imports to about the 1966 level, and result in calendar year dairy imports equivalent to about 1.0 billion pounds of milk, starting 1968.

The commercial disappearance of milk in all dairy products (milk equivalent, fat solids basis) during January-May dropped an estimated 5 percent from year-earlier levels. Among major products (product weight basis) declines occurred for fluid whole milk, butter, nonfat dry milk, and canned milk. Sales of cheese, ice milk, and fluid skim milk products increased; sherbet and ice cream were about the same. Higher retail prices, slowing gains in real incomes, and less need for inventories in 1967 contributed to this drop, along with the availability of relatively low-priced substitutes and the general trend away from animal fat consumption. Sales of fluid skim milk products, which were about 12 percent above last year, limited the decline in sales of all fluid milk items about 1 percent. The sales decline from a year earlier may slow in the last half of this year because retail prices will likely be closer to year-earlier levels than in the first half and economic activity is expected to improve. However, commercial disappearance of milk in all dairy products is expected to drop in 1967 for the first time since 1961. Increase USDA donations of butter and cheese to domestic programs will offset a part of the sales decline.

Even with no increase in milk production, CCC purchases under the dairy support program in the first half of 1967 were equivalent to about 5.3 billion pounds of milk, compared with only 0.2 billion pounds a year ago. The excess over commercial needs appears due to the decline in commercial sales of milk and dairy products as well as to rising imports of dairy products. Stocks of dairy products are gaining sharply, mostly because of rising Government holdings of butter. Commercial stocks are also above a year earlier.

Poultry and Eggs

During the first half of 1967 egg production totaled about 98 million cases, up more than 6 percent from a year earlier. Most of the increase was due to a 5 percent increase in the size of the laying flock. Because of the heavy supplies, prices to producers were relatively low, averaging 32 cents a dozen, about 5 cents below the first half of 1966. Production is still appreciably larger than a year ago but the seasonal peak has passed and producers continue heavy culling of flocks. In addition, the Department of Agriculture is purchasing dried whole egg solids to help producers in marketing the large supplies. Eggs purchased will be used in school lunch outlets.

Prices strengthened several cents a dozen during July; and with a cutback in the rate of expansion in coming months some further improvement in egg prices is expected. Even so, during the remainder of this year production is likely to continue above and prices below those in the summer and fall of 1966.

Broiler production the first half of this year was about 8 percent larger than a year earlier and prices to producers averaged 14.0 cents per pound, 2.4 cents below those of January-June 1966. Significantly larger supplies of beef and sharply larger supplies of pork also contributed to the lower broiler prices compared with last year. The lower prices appear to have halted expansion in broiler production, at least temporarily, with summer marketings likely to be close to those of last summer. With larger supplies of other meats available, broiler prices this summer likely will average below the relatively high levels of a year earlier. By the fourth quarter, however, prices to producers are expected to average above the low levels of last fall.

Indications are that the 1967 turkey crop will total 6 to 8 percent larger than the 1966 crop. The marketing of early hatched poults was up sharply and marketings in the first half, a period of light seasonal supplies, were up about a fourth. But prices to producers so far this year have averaged 20.5 cents per pound, more than 3 cents below a year earlier, and producers apparently are cutting back on expansion. Thus, production during the second half of the year is expected to be only moderately above 1966 levels. USDA is purchasing whole frozen turkeys, which will be used in school lunch outlets; this will help in bringing about some improvement in market conditions. But cold storage holdings are much larger than a year ago, and prices to producers during the remainder of the year are expected to continue below those of 1966.

Wool

U.S. production of shorn wool in 1967 will total about 189 million pounds, grease basis, according to the July estimate. This is 3 percent less than the 194 million pounds produced in 1966 and continues the declining trend that began in 1961. The total number of sheep shorn or to be shorn in 1967 is expected to decrease, while the average fleece weight will be slightly higher.

Commercial stocks of raw apparel wool in the United States on January 1, 1967, totaled about 87 million pounds, scoured basis--or 3 percent less than a year earlier. However, as a result of low consumption, supplies from stocks on January 1, 1967, totaled 21.4 weeks of mill consumption--up sharply from the more normal level of 16.8 weeks on January 1, 1966.

Mill use of apparel wool during the first 5 months of 1967 was relatively stable (seasonally adjusted basis), but was running at a level 21 percent below a year earlier. Wool use during January-May 1967 totaled about 96 million pounds, scoured basis, against 122 million pounds in early 1966. Use on the worsted system declined more than on the woolen system. Prices of raw wool in 1967 are below year-earlier levels, but the increasing effect expected of lower wool prices on consumption was offset by larger beginning stocks of wool tops, a lower level of unfilled orders for finished wool fabrics, and increased competition from man-made fibers. Stocks of wool tops on January 1, 1967, amounted to about 28 million pounds, compared with 19 million pounds on January 1, 1966. Unfilled orders for fabrics at the end of April 1967 were down a third, compared with a year earlier, and man-made fibers share of total fiber use on the woolen and worsted system increased. Prospects for some increases in mill use of apparel wool in coming months appear favorable as stocks of tops likely have been reduced and retail sales of apparel are expected to continue at a relatively high level.

Imports of raw apparel wool declined sharply during the first 5 months of 1967--down 45 percent compared with a year earlier--reflecting the high beginning stocks and low consumption. Wool textile product imports also declined in early 1967 along with the lower wool mill activity.

Prices received by growers for shorn wool declined in early 1967, and are expected to average sharply less than the 52.1 cents per pound received in 1966. However, some strengthening in prices occurred during June and early July after reaching a low point in April and May of this year. With some increase expected in mill use of wool in the United States and in other countries, prices of apparel wool may show some further slight improvement in coming months.

Crops

Wheat

The supply of wheat for 1967/68 is estimated at around 2 billion bushels, based on data available in July. The 1967 crop was indicated at a record 1.6 billion bushels, which offsets a reduced July 1 carryover of 426 million. The carryover was the smallest since 1952 and was 110 million bushels below the carryover on July 1, 1966.

Food use of wheat in 1967/68 is placed at 525 million bushels and seed use, based on the 59.3 million acre allotment for the 1968 crop, at 70 million. Food use at this estimated level would be slightly above that of last year while seed use would be lower, reflecting the decreased acreage allotment. Feeding of wheat in 1967/68 is estimated at 125 to 150 million bushels, about 54 million above the 82 million of 1966/67 and practically the same as the 142 million fed in 1965/66. Domestic disappearance is likely to total around 730 million bushels with the final level determined by the magnitude of wheat feeding.

The Secretary announced an export target of 750 million bushels for 1967/68 pointing out that in the face of increased world supplies it would require the best efforts of industry and government to achieve the goal. At this level exports would be slightly above the 742 million bushels indicated for 1966/67. Commercial exports, including CCC credit and barter, set a record of 450 million bushels last year, 62 million over the previous record in 1963/65. Food for Peace exports at 292 million

bushels in 1966/67 were the smallest in years due to restrictions on sales to some countries, smaller requirements in others and reduced wheat supplies in the U.S. Coarse grains, notably grain sorghums, were substituted under P. L. 480 for many countries and their grain requirements were largely met. Some former P. L. 480 recipients purchased wheat under the Commodity Credit Corporation's short-term credit program in 1966/67 when they could not get approval for Title I (foreign currency) program purchases.

Based on the foregoing estimate of domestic disappearance, and the export target it appears likely that the carryover on June 30, 1968, may be moderately larger than the 426 million bushels of this summer, possibly increasing by as much as 100 million bushels.

Wheat prices in July had declined in the face of the large harvest but were still holding above the price support loan rate. For that month they averaged \$1.37 per bushel, 12 cents over the national average loan rate. For the entire year, prices are likely to be lower than the very high level established in 1966/67 but still average above the loan. The season average price received by farmers in 1966/67 was \$1.63 per bushel, 38 cents per bushel above the loan. In addition, participants in the 1966 wheat program received an average marketing certificate payment of 59 cents per bushel. The national average loan rate for 1967-crop wheat at \$1.25 per bushel is unchanged from that for 1966. The certificate payment, however, will average 48 cents per bushel, reflecting the larger acreage allotment.

Rice

The July Crop Report placed rice production in 1967 at 84.8 million cwt., virtually the same as in 1966. Harvested acreage and the yield per harvested acre are about unchanged from a year earlier. The August 1 carryover of old-crop rice may total around 7 to 8 million cwt., slightly below the 8.2 million of August 1966. Based on these early indications, the total supply for 1967/68 may be about 93 million cwt., fractionally smaller than the 1966/67 supply of 93.4 million.

With higher world rice prices, the United States was able to discontinue the export payment on Southern rice on May 9 and on California rice on July 3, 1967. This is in sharp contrast to the export payments in recent years which often were equivalent to one-fourth of the U.S. domestic price.

Feed Grains

The 1967 feed grain crop, estimated on the basis of July 1 conditions, would total a record 169 million tons. This included an allowance for sorghum grain which is not estimated until August 10th. ^{1/} A crop of this size would be 12 million tons more than the big 1966 crop and 24 million above the 1961-65 average. With prospects for a moderate reduction in carryover of probably around 5 million tons from a year earlier, the supply for the 1967/68 season would total around 206 million tons, up about 3 percent from a year earlier, but 4 percent below the 5 year average.

Acreage planted to feed grains this year is estimated at 122 million, 4 percent more than in 1966. Corn acreage totaled 71 million, up 5 million from 1966 and the largest since 1960. Sorghum acreage at 19 million was up 3 million from a year earlier and also the largest since 1960. Acreage seeded to oats was down 2 million while barley acreage was almost a million less than last year.

Total disappearance of feed grains in the current marketing year is now estimated at 4 or 5 percent below the record 170 million in 1965/66. Domestic consumption this year probably will nearly equal the 141 million tons of the past year. The less favorable livestock and poultry prices and higher feed grain prices than in 1965/66 have tempered the demand for feed grains--especially since January. Domestic consumption during January-June this year totaled 68 million tons, 5 million less than in the same period of 1966. The recent upturn in livestock prices--especially for hogs--may improve the demand for feed grains during July-September.

^{1/} Supplies for the coming 1967/68 season will be reappraised on the basis of the August 10 Crop Report and published in the Feed Situation scheduled for release August 18.

Exports have been much lower than a year earlier during 1966/67 and now are expected to total around 22 million tons, about a fourth smaller than in 1965/66. During October-June, exports totaled about 17 million tons, a decrease of almost 6 million from last year. Factors contributing to lower exports were: (1) Higher domestic prices relative to world prices; (2) increased production of feed crops in both Western and Eastern Europe; (3) big crops in major feed grain exporting countries; and (4) a slowdown in the Western European general economy and less favorable livestock-feed price ratios.

Stocks of feed grains in all positions on July 1 totaled 65 million tons, about 7 million below those on July 1, 1966. Government stocks, which have declined sharply in recent years, were 21 million tons, almost 15 million below a year earlier. Privately held stocks were estimated at 44 million, about 8 million more than the year before. These stocks are expected to be sufficient to take care of the requirements during the remainder of the present marketing year. If the current estimate of carryover is realized, it appears that privately held stocks at the end of the year will be the highest of record. There has been very little seasonal variation in the price of feed grains so far this season. However, during October-July they averaged 7 percent above the same period last year and for the entire season likely will average the highest in more than 10 years. With early prospects of a record 1967 crop, prices have weakened this summer and in July they were 3 percent below a year earlier. If crop conditions continue generally favorable, prices probably will average below a year earlier this fall and winter.

With prices well above the loan rates, feed grain producers placed only 8 million tons of 1966-crop feed grains in the price support program, the smallest in 15 years. This was the fourth consecutive year of relatively small loan activity. Most of this is expected to be redeemed or resealed--with only negligible quantities delivered to CCC.

Oilseeds, Fats and Oils

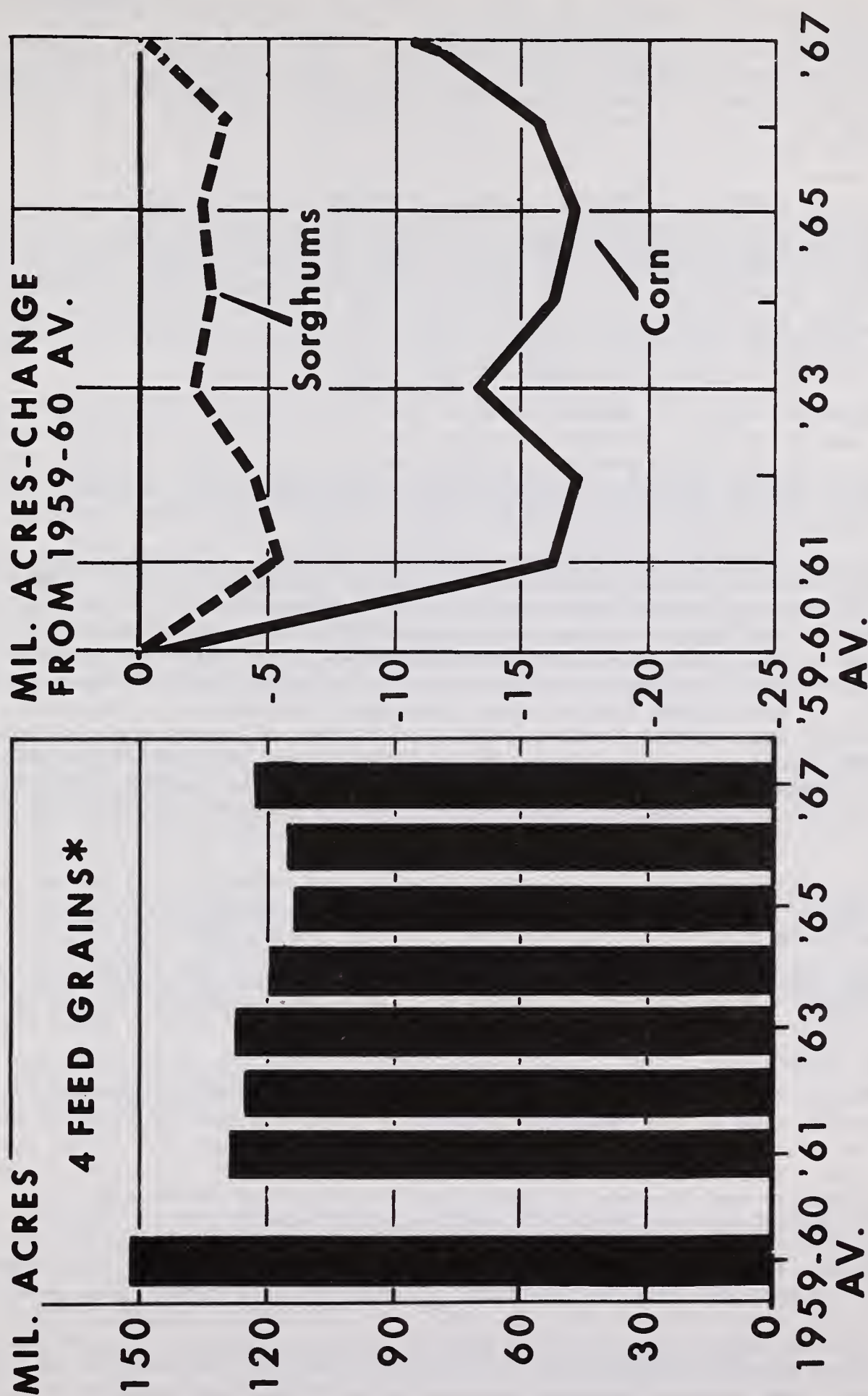
Soybean supplies this summer are at record levels, due to the record 1966 crop and the slower rate of increase in utilization for soybeans and soybean products. Total soybean disappearance for the entire 1966/67 marketing year, which began last September 1, likely will be only 3 percent above the 840 million bushels in 1965/66. Carryover stocks on September 1, 1967, are expected to total around 100 million bushels. Total stocks of soybeans in all positions on July 1, 1967, were 199 million bushels, 49 percent above July 1, 1966.

Soybean crushings during September-June 1966/67 totaled 460 million bushels, about 5 million above the same period a year ago. The crushing rate this season has been restrained because the relatively high price of soybeans, compared with product values, has reduced processing margins. (The 10-month average processor margin derived from spot prices was 16 cents per bushel, compared with 28 cents a year earlier.) With some pickup in crush expected this summer over last, crushings for the entire 1966/67 marketing year may total around 550 million bushels, compared with 538 million in 1965/66.

Soybeans inspected for export from September 1, 1966, through July 28, 1967, totaled 243 million bushels, compared with 239 million a year ago. High soybean prices last summer and fall adversely affected exports, as did stiffer competition from foreign sources--mainly Peruvian fish meal and Russian sunflower seed oil.

Soybean prices to farmers declined from a high of \$2.97 per bushel in September 1966 to a 1967 seasonal low of \$2.66 in July. For this period, they averaged \$2.76 per bushel compared with \$2.70 a year ago. Prices are now adjusting to new crop developments and are expected to decline further as the new harvesting season approaches.

FEED GRAIN ACREAGE PLANTED



1967 BASED ON JULY 1 INDICATIONS.

*CORN, OATS, BARLEY AND SORGHUM GRAIN.

Planted soybean acreage in 1967 is placed at a record 41.0 million acres, up 10 percent from the 37.4 million acres of 1966. Acreage is up in all regions with the largest percentage increase in the South Atlantic and South Central regions. Farmers intend to harvest 40.1 million acres for beans, up around 10 percent from 1966. The August 10th Crop Report contains the first forecast of yield and production for the 1967 crop.

Fruit

Generally lighter supplies and higher prices for fresh and processed deciduous fruits are in prospect for this summer and early fall compared with a year earlier. Deciduous fruit production in 1967 will be about 11 percent below both last year and the 1961-65 average as a result of unfavorable spring weather in most fruit producing States. Only prunes and plums are expected to exceed 1966 production levels. Production of California Clingstone peaches, mostly a canning crop, will likely approximate last year's output. All other noncitrus fruit crops are down.

Packers' stocks of canned deciduous fruits on June 1, the start of the new processing season, totaled considerably below the level of a year earlier. Substantially larger carryins of canned peaches and pears were not sufficient to offset smaller beginning stocks of most other items. July 1 stocks of frozen deciduous fruits and berries were down materially from a year ago but still well above average.

Output of processed deciduous fruit items in 1967 is expected to be down from last year. Because of sharply decreased pear crop prospects, a large reduction in the canned pear pack is anticipated. Fruit cocktail output may also be adversely affected. Reductions in 1967 output of most other canned fruit items are indicated as a result of smaller crops. Possible exceptions are canned apple slices and apple sauce. Although the 1967 U. S. apple crop is expected to total slightly below a year earlier, production in the Eastern States, where processing utilization is important, is substantially above 1966. However, with June 1 stock of canned apple slices and apple sauce down sharply from a year ago, it is unlikely that 1967 production will be sufficient to raise total supplies of these items above a year earlier. Continued strong demand for fruit for both fresh and processing uses is expected during the 1967/68 season.

Prospective tonnage of almonds, filberts, and walnuts is 13 percent below 1966 but 10 percent above average. A moderate decrease in production is expected for almonds and substantial reductions indicated for filberts and walnuts.

The 1966/67 U. S. citrus crop was 32 percent above last season and 57 percent above average. Production of all kinds of citrus fruits was up. Grower prices for oranges and grapefruit averaged sharply below year-earlier levels, those for lemons, somewhat higher.

During August and September, California Valencia oranges, grapefruit, and lemons will comprise most of the remaining seasonally light supplies of fresh citrus fruit from 1966/67 crops. As of mid-July, remaining supplies of oranges and lemons were moderately larger than a year earlier. Supplies of fresh citrus fruit will again become seasonally large in October and November as fruit from the new crops become available. As of mid-July, 1967/68 citrus crop prospects were generally good.

With a record large 1966/67 citrus crop, production of Florida processed citrus' items this season has been substantially larger than in 1965/66. The pack of frozen concentrated orange juice to July 15, 1967, was 127 million gallons, exceeding the record 1961/62 output of 116 million gallons. Although movement to the trade this season has been spurred by reduced prices, Florida packers' stocks of all major frozen and canned items in mid-July were up considerably from a year earlier.

Commercial Vegetables

Production of fresh vegetables this summer is expected to total about the same as a year ago. Among principal items, smaller output is indicated for snap beans, carrots, lettuce, and tomatoes. But more cabbage, celery, sweet corn, and onions are likely than in 1966. Because of adverse weather, development of vegetables in summer crop areas was usually slow this year, resulting in light supplies during July. However, relatively large supplies are expected during the remainder of the summer season, and prices are expected to average moderately below year-earlier levels.

The total acreage of vegetables for processing is up moderately from last year, with large increases reported for all major vegetables. Although crops in most areas are late due to unfavorable weather, production and packs are expected to be relatively large. Aggregate supplies of canned vegetables in the 1967/68 marketing season likely will be substantially larger than those available last season. Frozen vegetable supplies likely will be record large. With processed supplies generally abundant, prices at both wholesale and retail in 1967/68 likely will average at least moderately below the record highs of last season.

Potato supplies during early summer were materially smaller than a year earlier, due to much less overlap of preceding spring crops and a moderate decline in early-summer production. As a result, prices during July averaged sharply above the depressed levels of a year earlier. Markets were further strengthened by delayed harvests in late-summer crop areas. However, marketings from these areas are increasing rapidly, and heavy supplies are expected since indicated late-summer tonnage is moderately above the large production in 1966. Considerable downward pressure on prices appears likely. Seasonally increasing supplies will be available during September from the important fall crop. Acreage for fall harvest is up 1 percent, with slight increases in all regions.

Sweetpotato production is expected to be 4 percent smaller this year than last because of reduced acreage. Marketings will remain light through the summer, then increase to the usual peak during the late fall. With supplies relatively small, prices for 1967 crop sweetpotatoes are expected to average the same to a little above the high prices of last season.

Supplies of dry edible beans are expected to be tight during the 1967/68 marketing season, reflecting a small crop. Both acreage and prospective yields are down because of bad weather, and 1967 production is expected to be more than a fourth smaller than in 1966. Prices have moved up, and during the 1967/68 season likely will remain sharply above year-earlier levels.

Dry pea production this year is much larger than in 1966. But since carryover stocks were light, total supplies for marketing during 1967/68 are about the same as the moderate supplies of last season.

Cotton

The carryover of cotton on August 1, 1967, totaled about 12½ million bales--down nearly 4½ million bales from record stocks of close to 17 million bales the previous August 1. Carryover declined sharply during 1966/67 because of the small 1966 crop, continued large domestic disappearance, and sharply higher exports.

As of July 1, U.S. acreage planted for the 1967 crop was estimated at 9.7 million acres. This is 6 percent below the 1966 acreage and 37 percent under the 1961-65 average. Producers signed up in the 1967 upland cotton program to remove about 4.9 million acres from production, compared with about 4.6 million acres for the 1966 crop. Although

the basic loan rate was reduced for the 1967 program price support and diversion payment rates were increased. Other provisions for the 1967 program are similar to those for 1966.

The July 1 acreage report reflects all cotton acreage planted including any that had already been abandoned or diverted to other uses after planting. Adverse weather conditions during the current season have caused heavy losses of planted acreage in the Carolinas, Tennessee, Missouri, the northern half of both Georgia and Alabama, and north-eastern Arkansas. The first official estimate of 1967 harvested acreage and production was released by the Crop Reporting Board on August 8th.

Disappearance of cotton during the 1967/68 crop year (beginning August 1) may total a little below 14.1 million bales estimated for the 1966/67 crop year, but well above the 1961-65 average of 13 million bales. The estimate for 1967/68 includes mill use of a little more than 9 million bales and exports of around 4 3/4 million bales.

Mill consumption of cotton during 1967/68 is expected to remain at a relatively high level although below the 9.4 million indicated for 1966/67. Preliminary prospects for mill use next year assume a recovery in economic activity during the first half of the crop year, further expansion in civilian demand for textile products, and high levels of military procurement.

The rate of cotton use trended upward from early 1964 through early 1967. This reflected expanding civilian demand for textile products, cotton's improved competitive price position, and a rebuilding of "pipeline" inventories of textile products. The rate of use has been falling in recent months with the slowdown in economic activity. Mill orders for cloth have fallen sharply and stocks have slowly risen--causing the ratio of stocks to unfilled orders to rise. If the ratio continues to rise over the next few months, a recovery in the rate of cotton use probably will not occur before late 1967 or early 1968, since a cyclical upturn in the rate of cotton use lags several months behind a decline in the ratio.

U. S. exports of cotton during 1967/68 may about match the 4 3/4 million bales estimated for 1966/67. The estimate for 1967/68 assumes a continuing uptrend in consumption of cotton in foreign Free-World countries, a recovery of cotton production in foreign Free-World countries to slightly above the 1965/66 level--mainly reflecting yield increases--and little change from 1966/67 in cotton stocks abroad or in net imports by Communist countries.

Commodity Credit Corporation stocks of cotton dropped sharply during 1966. As of July 14 they totaled about 6.3 million bales after deducting cotton sold for August 1 delivery. This was about half of the 12.4 million bales on approximately the same date a year earlier. Both CCC-owned cotton and cotton placed under loan by producers from the 1966 crop were down.

Tobacco

In the year ended June 30, 1967, U.S. smokers consumed an estimated 545 billion cigarettes--more than in any previous year and about 9 billion more than in 1965/66. Trade reports indicate rising sales of 100 millimeter filter tip cigarettes. Such cigarettes comprised a fairly small proportion of cigarette output in 1966/67, but in the year ahead this development could be a more significant factor in raising the total requirement for tobacco filler material.

Cigar and cigarillo consumption in the year ended June 30, 1967, was estimated at 8.2 billion--300 million fewer than in 1965/66. Output of smoking tobacco was down

8 percent to a long-time low, while that of chewing tobacco and snuff decline 1 and 2 percent, respectively.

The July 1 indication for 1967 production of all types of tobacco combined, at 1,983 million pounds, is 5 percent above 1966. Acreage for harvest is estimated at nearly 2 percent above last year.

The indicated 1967 flue-cured crop is 10 percent larger than in 1966. The national marketing quota for 1967 was set at the same level as 1966 but under the acreage-poundage program in effect for this kind, growers can produce and sell an additional quantity this year to make up the 1966 sizable undermarketings. Carryover of flue-cured in July 1, 1967, is estimated to be down 7 percent from a year earlier. The 1967/68 total supply--carryover plus this year's marketings--is 2 percent below 1966/67 and 8 percent below the record 1964/65 level.

On July 18, 96.5 percent of flue-cured tobacco growers voting in a referendum approved continuation of marketing quotas on an acreage-poundage basis for the 1968, 1969, and 1970 crops. At least a two-thirds majority was necessary for approval. For the next 3 crops, limitations will continue on both the acreage allotted to flue-cured tobacco farms and the pounds that can be marketed with price support.

Auction markets for 1967-crop flue-cured tobacco in Georgia and Florida--the southernmost belt--opened July 26. Prices for the first 5 days' sales average 67 cents a pound, compared with 69 cents a year earlier.

The Government price support level for 1967 flue-cured is 59.9 cents per pound--about 2 percent above 1966. This season, price support is available on untied tobacco of all grades during the first 95 hours of selling time scheduled for belts in Virginia, North Carolina, and South Carolina; tied tobacco in these belts will receive price support throughout the season. In Georgia and Florida, where marketings traditionally have been in untied form, untied flue-cured is price supported throughout the marketing season. The 1967 price-support rates for untied tobacco are 3 cents a pound lower than for tied tobacco--the same differential as in the 1965 and 1966 seasons.

Production of burley tobacco, which continues under the acreage allotment program, is indicated to be 2 percent below 1966. Carryover may also be down a little, and adding this year's crop would result in a total 1967/68 supply about 2 percent less than the previous year.

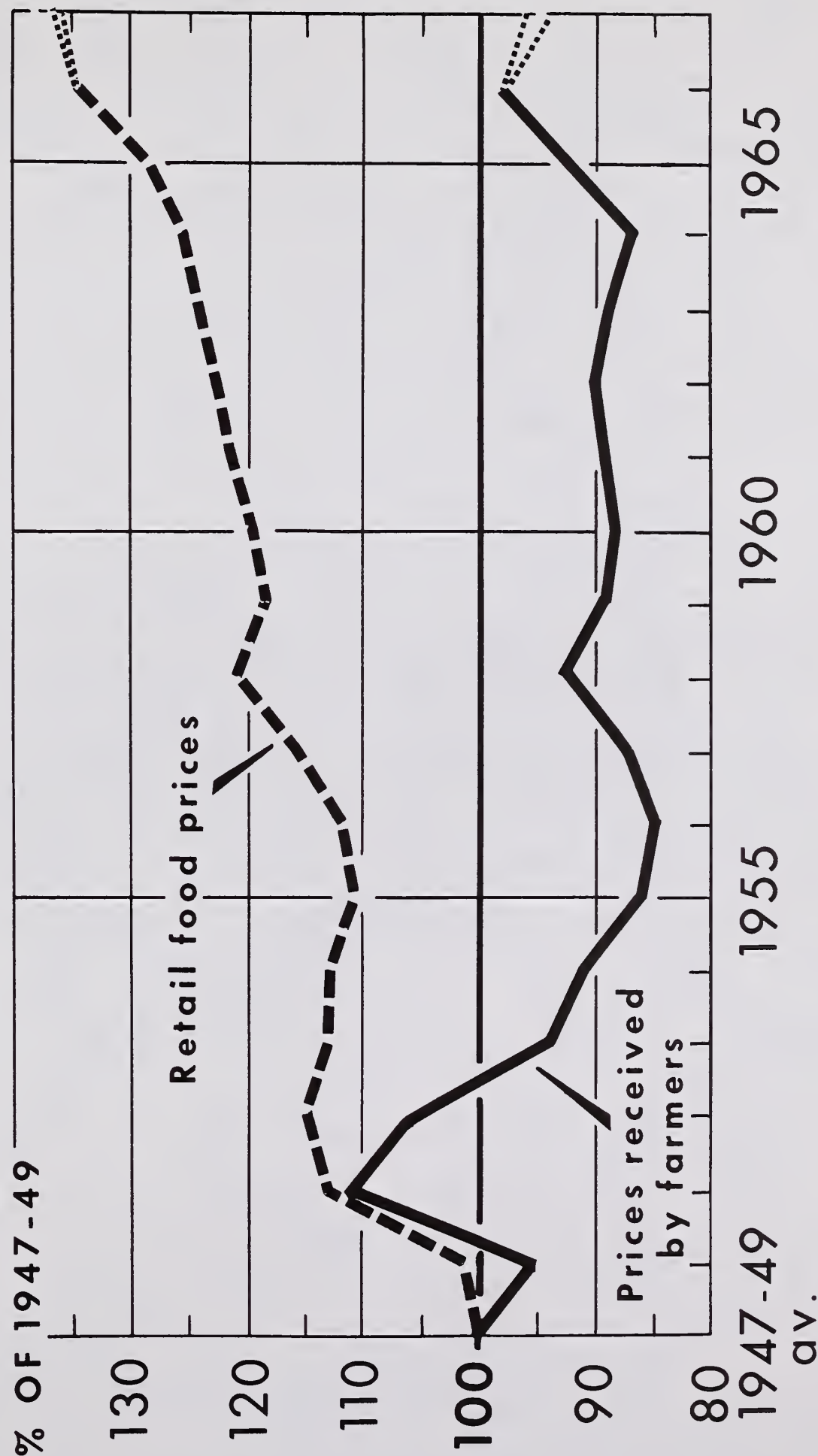
Auction sales of the 1966 Maryland crop ended June 30. The season auction price was 48.7 cents a pound--about 17 cents below the previous season's record average and third lowest in 12 years. Price support was not in effect (growers disapproved marketing quotas), and quality of offerings was considerably lower than for the previous crop. The 1967 indicated crop of Maryland tobacco is 35.2 million pounds--7 percent less than the estimated 1966 outturn. Growers also disapproved a marketing quota for the 1967 crop, and it will not receive price support when it is marketed next year.

U. S. exports of unmanufactured tobacco in the year ended June 30, 1967, rose about one third above 1965/66, and were the largest fiscal year shipment since 1919/20. Principal factors contributing to the increase were the sanctions against Rhodesian tobacco, improved quality of recent crops of flue-cured--the big-volume export tobacco--and the broadened export payment program effective early in 1966/67. If there should be a settlement of the Rhodesian situation leading to unrestricted availability of the tobacco now accumulating in Rhodesia, this would have a significant impact on U. S. tobacco exports.

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PRICES RECEIVED BY FARMERS AND RETAIL FOOD PRICES

Average 1947-49, Annual 1950-67



1967 FORECAST.

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